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

FORM 8-K/A
CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 4, 2019

THE ONE GROUP HOSPITALITY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**001-37379**	**14-1961545**
(State or other jurisdiction of incorporation)	**(Commission File Number)**	**(IRS Employer Identification No.)**

1624 Market Street, Suite 311
Denver, Colorado 80202
(Address of principal executive offices and zip code)

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

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

☐ Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communication pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communication pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	STKS	Nasdaq

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging growth company ☐

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

Item 2.01 Completion of Acquisition or Disposition of Assets.

On October 7, 2019, The ONE Group Hospitality, Inc. (the "Company") filed a current report on Form 8-K reporting the completion of its acquisition of substantially all of the assets of Kona Grill, Inc. and its affiliates effective October 4, 2019 ("Kona Grill"). This amendment amends the original filing to include the financial statements of Kona Grill required by Item 9.01(a) and pro forma financial statements of Kona Grill and the Company required by Item 9.01(b). The Company acquired the Kona Grill assets through a bankruptcy proceeding. During the six months ended June 30, 2019, Kona Grill closed 15 restaurants and subsequently closed three additional restaurants in July 2019. The assets related to those restaurants were not acquired by the Company.

Item 9.01 Financial Statements and Exhibits

(a) Financial statements of business acquired.

(i) The unaudited interim financial statements of Kona Grill, Inc. as of and for the six months ended June 30, 2019 (which have not been reviewed by an Independent Registered Public Accounting Firm) and 2018 are filed as Exhibit 99.2 and incorporated into this Item 9.01(a).

(ii) The audited financial statements of Kona Grill, Inc. as of and for the years ended December 31, 2018 and 2017 are filed as Exhibit 99.1 and incorporated into this Item 9.01(a).

(b) Pro forma financial information.

The unaudited pro forma condensed combined balance sheet as of June 30, 2019 (which has not been reviewed by an Independent Registered Public Accounting Firm) and the unaudited pro forma condensed combined statements of operations and comprehensive income (loss) for the six months ended June 30, 2019 (which has not been reviewed by an Independent Registered Public Accounting Firm) and for the year ended December 31, 2018 are filed as Exhibit 99.3 and incorporated into this Item 9.01(b).

(d) Exhibits.

23.1*	Consent of BDO USA, LLP (Independent Registered Public Accounting Firm)
23.2*	Consent of Ernst & Young LLP (Independent Registered Public Accounting Firm)
99.1*	Audited financial statements of Kona Grill, Inc. as of and for the years ended December 31, 2018 and 2017 (incorporated by reference to Part II, Item 8 of the Annual Report on Form 10-K of Kona Grill, Inc., filed on April 16, 2019).
99.2	Unaudited interim financial statements of Kona Grill, Inc. as of and for the six months ended June 30, 2019 and 2018.
99.3	Unaudited pro forma condensed combined balance sheet as of June 30, 2019 and the unaudited pro forma condensed combined statements of operations and comprehensive income (loss) for the six months ended June 30, 2019 and for the year ended December 31, 2018.

* Previously filed on Form 8-K/A on December 19, 2019.

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 hereunto duly authorized.

Dated: December 20, 2019	THE ONE GROUP HOSPITALITY, INC.	
	By:	/s/ Tyler Loy
	Name:	Tyler Loy
	Title:	Chief Financial Officer

INDEX TO EXHIBITS

Exhibit Number	Description
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99.2	Unaudited interim financial statements of Kona Grill, Inc. as of and for the six months ended June 30, 2019 and 2018.
99.3	Unaudited pro forma condensed combined balance sheet as of June 30, 2019 and the unaudited pro forma condensed combined statements of operations and comprehensive income (loss) for the six months ended June 30, 2019 and for the year ended December 31, 2018.

* Previously filed on Form 8-K/A on December 19, 2019.

Exhibit 99.2

The unaudited interim financial statements of Kona Grill, Inc. as of June 30, 2019 (which have not been reviewed by an Independent Registered Public Accounting Firm) and as of June 30, 2018 are as follows:

KONA GRILL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)
(unaudited)

	June 30, 2019	June 30, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,830	$ 5,335
Short-term investments	58	58
Receivables	354	641
Inventory	1,053	1,780
Prepaid expenses and other current assets	1,390	762
Total current assets	10,685	8,576
Other assets	837	1,144
Property and equipment, net	34,821	75,305
Operating lease right-of-use assets	27,166	—
Total assets	$ 73,509	$ 85,025
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 1,064	$ 2,009
Accrued expenses	8,559	9,964
Current portion of operating lease liabilities	5,282	—
Current portion of long-term debt, net	2,500	928
Total current liabilities	17,405	12,901
Operating lease liabilities, net of current portion	37,367	—
Long-term debt, net	—	32,604
Deferred rent and other long-term liabilities	330	31,670
Liabilities subject to compromise	55,248	—
Total liabilities	110,350	77,175
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, $0.01 par value, 2,000,000 shares authorized, none issued	—	—
Common stock, $0.01 par value, 30,000,000 shares authorized, 13,382,951 shares issued and 13,266,751 shares outstanding at June 30, 2019; 13,374,778 shares issued and 13,258,578 shares outstanding at June 30, 2018	134	134
Additional paid-in capital	92,428	92,092
Accumulated deficit	(128,403)	(83,376)
Treasury stock, at cost, 116,200 shares at June 30, 2019 and June 30, 2018	(1,000)	(1,000)
Total stockholders' equity (deficit)	(36,841)	7,850
Total liabilities and stockholders' equity (deficit)	$ 73,509	$ 85,025

See accompanying notes to unaudited condensed consolidated financial statements.

KONA GRILL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Six Months Ended June 30,	
	2019	**2018**
Revenue	$ 64,781	$ 84,363
Costs and expenses:		
Cost of sales	18,463	21,530
Labor	24,208	30,385
Occupancy	6,374	8,428
Restaurant operating expenses	9,719	12,960
General and administrative	8,154	6,624
Depreciation and amortization	4,410	6,721
Lease termination costs and other	8,904	(75)
Total costs and expenses	80,232	86,573
Loss from operations	(15,451)	(2,210)
Write-off of deferred financing costs	—	37
Interest expense, net	1,056	1,228
Loss before income taxes	(16,507)	(3,475)
Income tax (expense) benefit	(11)	15
Net loss	$ (16,518)	$ (3,460)
Net loss per share:		
Basic and diluted	$ (1.25)	$ (0.31)
Weighted average shares used in computation:		
Basic and diluted	13,265	11,113

See accompanying notes to unaudited condensed consolidated financial statements.

KONA GRILL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Operating activities		
Net loss	$ (16,518)	$ (3,460)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,182	6,721
Loss on disposal of assets	228	—
Stock-based compensation	111	357
Amortization of deferred financing costs	137	122
Write-off of deferred financing costs	—	37
Lease termination costs and other	8,893	(51)
Franchise termination	—	(246)
Change in operating assets and liabilities:		
Receivables	175	638
Inventory	592	(73)
Prepaid expenses and other current assets	(636)	137
Accounts payable	5,086	(880)
Accrued expenses	1,282	(2,636)
Operating lease liabilities and right-of-use assets	(914)	—
Deferred rent and other long-term liabilities	(23)	(884)
Net cash provided by (used in) operating activities	2,595	(218)
Investing activities		
Purchases of property and equipment	(68)	(735)
Proceeds from sale of equipment and insurance proceeds received on damaged equipment	203	64
Change in other assets	30	(10)
Net cash provided by (used in) investing activities	165	(681)
Financing activities		
Borrowings under debtor-in-possession facility	2,500	—
Repayments on revolving credit facility	—	(3,750)
Repayments on term loan	—	(375)
Fees paid for credit facility	—	(223)
Proceeds from issuance of common stock, net of issuance costs	—	5,532
Proceeds from issuance of common stock under the Employee Stock Purchase Plan and exercise of stock options	2	8
Net cash provided by financing activities	2,502	1,192
Net change in cash and cash equivalents	5,262	293
Cash and cash equivalents at the beginning of the period	2,568	5,042
Cash and cash equivalents at the end of the period	$ 7,830	$ 5,335
Supplemental disclosure of cash flow information		
Cash paid for interest, net of capitalized interest	$ 517	$ 1,257
Cash paid for income taxes, net of refunds	$ 71	$ 58
Noncash investing activities		
Accounts payable and accruals related to property and equipment	$ 94	$ 114

See accompanying notes to unaudited condensed consolidated financial statements.

KONA GRILL, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Business and Significant Accounting Policies

Summary of Business

On April 30, 2019 Kona Grill, Inc. (the “Company”) and eight of its subsidiaries commenced voluntary Chapter 11 proceedings under the United States Bankruptcy Code (the “Bankruptcy Code”) with the United States Bankruptcy Court for the District of Delaware in Wilmington, Delaware (the “Bankruptcy Court”). The Company filed a motion with the Bankruptcy Court seeking to administer all of the Chapter 11 cases jointly under the caption *In re Kona Grill, Inc., et al.* (Case No. 19-10953). The eight subsidiaries in the Chapter 11 cases are: Kona Restaurant Holdings, Inc., Kona Sushi, Inc., Kona Macadamia, Inc., Kona Texas Restaurants, Inc., Kona Grill International Holdings, Inc., Kona Baltimore, Inc., Kona Grill International, Inc. and Kona Grill Puerto Rico, Inc.

The Company owns, operates and franchises upscale casual dining restaurants under the name “Kona Grill.” The restaurants feature a diverse selection of contemporary American favorites and award-winning sushi items that are prepared fresh daily at each restaurant location. As of June 30, 2019, the Company owned and operated 27 restaurants in 17 states and Puerto Rico. The Company also had two international franchise partners in Dubai, United Arab Emirates and Vaughan (Toronto), Canada. In July 2019, the Company closed three restaurants and the franchised restaurant in Vaughan was closed. The Company’s chief operating decision maker function is comprised of the Chief Executive Officer, Chief Restructuring Officer and Chief Financial Officer who manage the Company’s restaurant operation base that aggregates into one reportable segment. Accordingly, the Company has a single operating segment and reporting unit structure.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and with the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the Company’s opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

Recent Accounting Pronouncements

In July 2019, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Updated (“ASU”) No. 2019-07, “Codification Updates to SEC Sections – Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization and Miscellaneous Updates (SEC Update)” (“ASU 2019-07”). ASU 2019-07 updates the accounting standards codification to reflect the amendments of various SEC disclosure requirements that the agency determined were redundant, duplicative, overlapping, outdated or superseded and aligns the guidance with the requirements of certain SEC final rules. ASU 2019-07 is effective immediately. The adoption of ASU 2019-07 did not have a material impact on the Company’s financial position, results of operations or cash flows.

In March 2019, the FASB issued ASU No. 2019-01, “Leases (Topic 842): Codification Improvements” (“ASU 2019-01”). ASU 2019-01 provided clarification related to adopting Accounting Standard Codification Topic 842, Leases (“ASC Topic 842”). ASU 2019-01 addresses fair value determinations of underlying assets by lessors, cash flow statement presentation for financing leases, and transition disclosures. The Company adopted ASC Topic 842 as of January 1, 2019 and considered the clarification guidance in ASU 2019-01 as part of its adoption. Refer to Note 9 for additional details regarding the adoption of ASC Topic 842.

In August 2018, the FASB issued ASU No. 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement" ("ASU 2018-13"). ASU 2018-13 eliminates, modifies and adds disclosure requirements for fair value measurements. The amendments in ASU 2018-13 are effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted. The Company is evaluating the effects of ASU 2018-13 on its consolidated financial statements but does not expect the adoption of ASU 2018-13 to be material.

In August 2018, the FASB issued ASU No. 2018-15, "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract" ("ASU 2018-15"). ASU 2018-15 aligns the requirements for capitalizing implementation costs in cloud computing arrangements with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 is effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted. Entities can choose to adopt the new guidance prospectively or retrospectively. The Company is evaluating the effects of this pronouncement on its consolidated financial statements.

2. Subsequent Events

On August 30, 2019, after a competitive auction process conducted under the supervision of the Bankruptcy Court in accordance with Section 363 of the Bankruptcy Code, the Company entered into an Asset Purchase Agreement (the "KGA Asset Purchase Agreement") with Kona Grill Acquisition, LLC , a wholly owned subsidiary of The ONE Group Hospitality, Inc., ("KGA") pursuant to which KGA agreed to purchase substantially all of the assets of the Company (such assets, the "Purchased Assets," and such transaction, the "Asset Sale"). The KGA Asset Purchase Agreement was filed with the Bankruptcy Court on August 30, 2019 along with a motion seeking an order (A) Authorizing the Sale of Substantially All of the Company's Assets Pursuant to Asset Purchase Agreement(s) Free and Clear of Liens, Claims and Encumbrances, and Other Interests; (B) Approving the Assumption and Assignment of Certain Executory Contracts and Unexpired Leases Related Thereto; and (C) Granting Related Relief (the "Sale Order"). On September 24, 2019, the Bankruptcy Court entered the Sale Order, thereby approving the Asset Sale on the terms and conditions of the Asset Purchase Agreement. On October 4, 2019, the Company and KGA closed the sale under the KGA Asset Purchase Agreement.

The Purchased Assets include but are not limited to, all rights of the Company under the executory contracts and unexpired leases specified in the KGA Asset Purchase Agreement (collectively, the "Assigned Contracts"). Under the KGA Asset Purchase Agreement, the Purchaser would acquire the Purchased Assets for a purchase price of $25,000,000 (the "Purchase Price"), plus the assumption of assumed liabilities in the approximate aggregate amount of $10,800,000 which include: (a) cure claims of executory contracts and unexpired leases; (b) post-petition accounts payable; (c) unpaid payroll that comes due and payable after the closing (even if it relates to the pre-closing period); (d) accrued but unused paid time off for restaurant employees; (e) accrued taxes; (f) customer program liabilities (i.e., gift cards and "Konavore" program); (g) liabilities related to environmental laws arising after the closing date; and, (h) transfer taxes. To the extent that any Assigned Contract requires the payment of Cure Costs (as defined in the KGA Asset Purchase Agreement) in order to be assumed pursuant to section 365 of the Bankruptcy Code, whether determined prior to or after the closing, the Purchaser shall be responsible for paying cure costs related to Assigned Contracts that are real property leases or that are personal property leases.

3. Fair Value Measurements

The carrying value for certain financial instruments, including cash and cash equivalents, accounts receivable and accounts payable approximates fair value because of their short-term nature. Investments represent certificates of deposit that are valued using market observable inputs (Level 2).

4. Net Loss Per Share

Basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share includes the dilutive effect of potential stock option exercises, calculated using the treasury stock method.

The following table sets forth the computation of basic and diluted net loss per share:

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Numerator:		
Net loss	$ (16,518)	$ (3,460)
Denominator:		
Weighted average shares — Basic	13,265	11,113
Effect of dilutive stock options	—	—
Weighted average shares — Diluted	13,265	11,113
Net loss per share:		
Basic and diluted	$ (1.25)	$ (0.31)

Stock options outstanding that were not included in the dilutive earnings per share calculation because the effect would have been anti-dilutive were 0.7 million and 0.8 million for the six months ended June 30, 2019, and 2018, respectively.

5. Property and Equipment

Property and equipment consisted of the following (in thousands):

	June 30, 2019	June 30, 2018
Leasehold improvements	$ 67,203	$ 114,704
Equipment	17,135	29,408
Furniture and fixtures	7,121	12,141
	91,459	156,253
Less accumulated depreciation and amortization	(56,896)	(81,707)
	34,563	74,546
Construction in progress	258	759
Total property and equipment, net	$ 34,821	$ 75,305

During the quarter ended December 31, 2018, the Company recorded non-cash asset impairment charges of $18.3 million for certain underperforming restaurants based upon an assessment of each restaurant's historical operating performance combined with the expected cash flows for these restaurants over the respective remaining lease term. The Company reduced the carrying value of these assets to their estimated fair value which was determined using a discounted cash flow model or the market value of each restaurant's assets. During the six months ended June 30, 2019, the Company closed 15 restaurants and subsequently closed three additional restaurants during July 2019.

6. Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	June 30, 2019(a)	June 30, 2018
Restructuring-related professional services	$ 2,445	$ —
Accrued payroll and benefits	2,411	3,864
Gift cards	2,068	2,635
Sales and use taxes	653	1,059
Business and income taxes	340	446
Accrued occupancy	131	398
Lease termination	—	332
Other	511	1,230
Total accrued expenses	$ 8,559	$ 9,964

(a) As a result of the bankruptcy filing on April 30, 2019, accrued expenses incurred prior to April 30, 2019 were reclassified to "Liabilities subject to compromise" in the accompanying balance sheet.

7. Debt and Credit Agreements

KeyBank National Association ("KeyBank") and Zions First National Bank ("Zions"), collectively referred to as the Lenders, provided up to $6 million in debtor-in-possession financing ("DIP financing") as part of the Company's bankruptcy restructuring plan. As of June 30, 2019, $2.5 million was outstanding. The interest rate under the DIP financing was 11.0% at June 30, 2019. The Company is obligated to pay a commitment fee at an annual rate of 2.0% times the unused total commitment of the DIP financing. The Company incurred commitment fees under the DIP financing of $6,000 for the six months ended June 30, 2019. In addition, an exit fee equal to 2.0% of the total commitment is due upon repayment of the DIP financing.

As of December 31, 2018, the Company had $33.2 million in outstanding debt pursuant to the Second Amended and Restated Credit Agreement, as amended, with the Lenders. On March 9, 2018, the Company entered into Amendment No. 4 to the Second Amended and Restated Credit Agreement ("Amendment No. 4"). Amendment No. 4 amended the Second Amended and Restated Credit Agreement to, among other things, reduce the available credit on the revolver ("Revolver") from $30.0 million to $25.0 million, which including the $15.0 million term loan ("Term Loan"), resulted in an overall reduction of the credit facility from $45.0 million to $40.0 million as of the effective date of Amendment No. 4 and further reduced the available credit on the Revolver to $22.5 million at June 30, 2018 and $20.0 million at December 31, 2018. Additionally, (a) the maturity date was amended from October 12, 2019 to January 13, 2020 with no option to extend the maturity; (b) the applicable margins for base rate loans and the applicable margins for LIBOR rate loans were increased by 50 bps to 100 bps depending on the Company's leverage ratio; and (c) the maximum leverage ratio was increased and the minimum fixed charge coverage ratio was decreased. The credit facility is secured by the Company's personal property and assets. Certain of the Company's wholly owned subsidiaries have also guaranteed the credit facility.

Amendment No. 4 requires compliance with certain covenants on a quarterly basis, including (a) a minimum fixed charge coverage ratio of (i) 1.10 to 1.00 for the fiscal quarters ending March 31, 2018, June 30, 2018 and September 30, 2018; (ii) 1.15 to 1.00 for the fiscal quarters ending December 31, 2018 and March 31, 2019 and (iii) 1.20 to 1.00 for the fiscal quarter ending June 30, 2019 and each fiscal quarter thereafter; and (b) a maximum leverage ratio of (i) 6.25 to 1.00 for the fiscal quarter ending March 31, 2018; (ii) 6.00 to 1.00 for the fiscal quarter ending June 30, 3018; (iii) 5.50 to 1.00 for the fiscal quarter ending September 30, 2018; (iv) 5.00 to 1.00 for the fiscal quarters ending December 31, 2018, March 31, 2019 and June 30, 2019; and (v) 4.25 for the fiscal quarter ending September 30, 2019 and each fiscal quarter thereafter. As a result of the bankruptcy filing, the Company was in default of the credit agreement at June 30, 2019.

The interest rate under Amendment No. 4 is KeyBank's base rate or LIBOR, at the Company's option, plus an applicable margin depending on the Company's leverage ratio. The LIBOR margins range from 2.0% to 5.0% and the base rate margins range from 1.0% to 4.0%. For such times when the leverage ratio is greater than or equal to 6.0, then the applicable margin for base rate loans and the applicable margin for LIBOR rate loans are 4.0% and 5.0%, respectively. For such times when the leverage ratio is greater than or equal to 5.5 but less than 6.0, then the applicable margin for base rate loans and the applicable margin for LIBOR rate loans are 3.5% and 4.5%, respectively. Payments on the Term Loan are due quarterly and are subject to acceleration upon certain events as defined in the Second Amended and Restated Credit Agreement, while borrowings on the Revolver are interest only, payable quarterly with respect to each base rate loan and at varying times with respect to LIBOR rate loans, with outstanding principal and interest due at maturity. The weighted average interest rate as of June 30, 2018 was 6.6%.

The Company was obligated to pay a commitment fee at an annual rate of 0.175% to 0.350%, depending on its leverage ratio, times the unused total revolving commitment of the credit facility based on the average daily amount outstanding under the credit facility for the previous quarter. For such times when the leverage ratio is greater than 4.25, the commitment fee annual rate was 0.50%. The commitment fee was payable quarterly in arrears. The Company incurred commitment fees of $8,000 for the six months ended June 30, 2018.

8. Income Taxes

The Company recorded income tax expense of $11,000 for the six months ended June 30, 2019. The Company recorded a net income tax benefit of $15,000 during the six months ended June 30, 2018 which consisted of a revised estimate of state income tax expense.

The Company is subject to income taxes for federal, state and local jurisdictions in which it operates. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. In the normal course of business, the Company is subject to examination by the federal, state and local taxing authorities.

9. Leases

The Company adopted ASC Topic 842 as of January 1, 2019 using the optional transition method and has applied its transition provisions at the beginning of the period of adoption. As a result, the Company did not restate comparative periods. Under this transition provision, the Company has applied the legacy guidance under Accounting Standard Codification Topic 840, Leases, including its disclosure requirements, in the comparative periods presented.

Under ASC Topic 842, a lease is a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. The Company's contracts determined to be or contain a lease include explicitly or implicitly identified assets where the Company has the right to substantially all of the economic benefits of the assets and has the ability to direct how and for what purpose the assets are used during the lease term. Leases are classified as either operating or financing. For operating leases, the Company has recognized a lease liability equal to the present value of the remaining lease payments, and a right of use asset equal to the lease liability, subject to certain adjustments, such as prepaid rents, initial direct costs and lease incentives received from the lessor. The Company used its incremental borrowing rate to determine the present value of the lease payments. The Company's incremental borrowing rate is the rate of interest that it would have to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment.

ASC Topic 842 includes practical expedient and policy election choices. The Company elected the practical expedient transition package available in ASC Topic 842 and, as a result, did not reassess the lease classification of existing contracts or leases or the initial direct costs associated with existing leases. The Company has made an accounting policy election not to recognize right of use assets and lease liabilities for leases with a lease term of 12 months or less, including renewal options that are reasonably certain to be exercised, that also do not include an option to purchase the underlying asset that is reasonably certain of exercise. Instead, lease payments for these leases are recognized as incurred. Additionally, the Company has elected not to separate the accounting for lease components and non-lease components, for all leased assets.

The Company elected the hindsight practical expedient and therefore reassessed its historical conclusions with regards to whether renewal option periods should be included in the terms of its leases.

Upon adoption on January 1, 2019, the Company recognized right-of-use assets and lease liabilities for operating leases of $40.3 million and $65.2 million, respectively. The difference between the right-of-use asset and lease liability represents the net book value of deferred rent and tenant improvement allowances recognized by the Company as of December 31, 2018, which was adjusted against the right-of-use asset upon adoption of ASC Topic 842. There was no impact to the opening balance of retained earnings upon adoption.

The changes due to the adoption of ASC Topic 842 were as follows (in thousands):

	December 31, 2018	ASC 842 Adjustments	January 1, 2019
Assets			
Operating lease right-of-use assets	$ —	$ 40,338	$ 40,338
Liabilities			
Current portion of operating lease liabilities	$ —	$ 6,903	$ 6,903
Operating lease liability, net of current portion	—	58,316	58,316
Accrued expenses	15,558	(3,048)	12,510
Deferred rent and other long-term liabilities	$ 22,458	$ (21,832)	$ 626

There was no impact to the Company's consolidated statements of operations for the six months ended June 30, 2019 compared to the six months ended June 30, 2018.

The Company enters into contracts to lease office space, restaurant space and equipment with terms that expire at various dates through 2029. Under ASC Topic 842, the lease term at the lease commencement date is determined based on the non-cancellable period for which the Company has the right to use the underlying asset, together with any periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option, periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option, and periods covered by an option to extend (or not to terminate) the lease in which the exercise of the option is controlled by the lessor. The Company considered a number of factors when evaluating whether the options in its lease contracts were reasonably certain of exercise, such as length of time before option exercise, expected value of the leased asset at the end of the initial lease term, importance of the lease to overall operations, costs to negotiate a new lease, and any contractual or economic penalties.

Certain of the Company's leases also provide for percentage rent, which are variable lease costs determined as a percentage of gross sales in excess of specified, minimum sales targets, as well as other variable lease costs to reimburse the lessor for real estate tax and insurance expenses, and certain non-lease components that transfer a distinct service to the Company, such as common area maintenance services. These percentage rents and other variable lease costs are not included in the calculation of lease payments when classifying a lease and in the measurement of the lease liability as they do not meet the definition of in-substance, fixed-lease payments under ASC Topic 842.

The components of lease expense for the period were as follows (in thousands):

	Six Months Ended June 30, 2019
Lease cost	
Operating lease cost	$ 4,527
Variable lease cost	30
Short-term lease cost	51
Total lease cost	$ 4,608
Weighted average remaining lease term – operating leases	7 years
Weighted average discount rate – operating leases	9.5%

Supplemental cash flow information related to leases for the period was as follows (in thousands):

		June 30, 2019
Cash paid for amounts included in the measurement of operating lease liabilities	$	5,485

As of June 30, 2019, maturities of the Company's operating lease liabilities are as follows (in thousands):

2019, six months remaining	$	4,669
2020		9,842
2021		9,235
2022		8,895
2023		8,479
Thereafter		24,039
Total lease payments		65,159
Less: imputed interest		(22,510)
Present value of operating lease liabilities	$	42,649

10. Stockholders' Equity (Deficit)

Significant changes in stockholders' equity (deficit) for the three and six months ended June 30, 2019 and 2018 are as follows (in thousands):

		Common Stock		Additional paid-in capital		Accumulated deficit		Treasury stock		Total
Balance at December 31, 2018	$	134	$	92,315	$	(111,885)	$	(1,000)	$	(20,436)
Stock-based compensation		—		78		—		—		78
Issuance of common stock under the Employee Stock Purchase Plan and exercise of stock options		—		2		—		—		2
Net loss		—		—		(4,046)		—		(4,046)
Balance at March 31, 2019		134		92,395		(115,931)		(1,000)		(24,402)
Stock-based compensation		—		33		—		—		33
Issuance of common stock under the Employee Stock Purchase Plan and exercise of stock options		—		—		—		—		—
Net loss		—		—		(12,472)		—		(12,472)
Balance at June 30, 2019	$	134	$	92,428	$	(128,403)	$	(1,000)	$	(36,841)

		Common Stock		Additional paid-in capital		Accumulated deficit		Treasury stock		Total
Balance at December 31, 2017	$	102	$	86,227	$	(79,666)	$	(1,000)	$	5,663
Cumulative effect of 606 adoption		—		—		(250)		—		(250)
Stock-based compensation		—		209		—		—		209
Issuance of common stock under the Employee Stock Purchase Plan and exercise of stock options		—		5		—		—		5
Net loss		—		—		(2,460)		—		(2,460)
Balance at March 31, 2018		102		86,441		(82,376)		(1,000)		3,167
Stock-based compensation		—		148		—		—		148
Issuance of common stock under the Employee Stock Purchase Plan and exercise of stock options		—		2		—		—		2
Issuance of common stock, net of $80 in offering expenses		32		5,501		—		—		5,533
Net loss		—		—		(1,000)		—		(1,000)
Balance at June 30, 2018	$	134	$	92,092	$	(83,376)	$	(1,000)	$	7,850

11. Stock-Based Compensation

The fair value of stock options granted during the six months ended June 30, 2019 and 2018 was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Expected volatility	71.4%	65.7%
Risk-free interest rate	2.4%	2.4%
Expected option life (in years)	3.0	3.5
Dividend yield	0.0%	0.0%
Weighted average fair value per option granted	$ 0.55	$ 0.77

The following table summarizes our stock option activity for the six months ended June 30, 2019:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding options at December 31, 2018	713,396	$ 13.05		
Granted	400,000	1.13		
Forfeited	(690,981)	9.00		
Exercised	—	—		
Outstanding options at June 30, 2019	422,415	$ 8.37	3.0 years	$ —
Exercisable at June 30, 2019	275,351	$ 11.57	2.3 years	$ —

The Company recognized stock-based compensation expense of $0.1 million and $0.4 million in the six months ended June 30, 2019 and 2018, respectively. As of June 30, 2019, there was $0.1 million of unrecognized stock-based compensation expense related to unvested stock-based compensation awards. The total shares of common stock reserved for issuance totaled 3.7 million, of which 1.9 million shares were available for grant as of June 30, 2019.

Exhibit 99.3

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On October 4, 2019, The ONE Group Hospitality, Inc (the "Company" or "The ONE Group") acquired substantially all of the assets of Kona Grill, Inc. and its affiliates ("Kona Grill"), comprising 24 domestic restaurants and one international franchise agreement. The Company purchased the assets for $25.0 million in cash and the assumption of approximately $11 million in working capital liabilities. The purchase was financed with proceeds from a credit and guaranty agreement the Company entered into with Goldman Sachs Bank USA on October 4, 2019 ("Credit Agreement"), which replaced the Company's Bank of America credit agreement.

The Credit Agreement provides for a secured revolving credit facility of $12.0 million and a $48.0 million term loan. The term loan is payable in quarterly installments, with the final payment due in October 2024. The revolving credit facility also matures in October 2024.

The Credit Agreement contains several financial covenants, including the following:

(a) a minimum consolidated fixed charge coverage ratio of (i) 1.35 to 1.00 as of the end of any fiscal quarter ending on or prior to June 30, 2021 and (ii) 1.50 to 1.00 as of any fiscal quarter thereafter;

(b) a maximum consolidated leverage ratio of (i) 2.75 to 1.00 as of the end of any fiscal quarter ending on or prior to March 31, 2020, (ii) 2.50 to 1.00 as of the fiscal quarter ending June 30, 2020, (iii) 2.25 to 1.00 as of the fiscal quarters ending September 30, 2020 and December 31, 2020, (iv) 2.00 to 1.00 as of the fiscal quarter ending March 31, 2021, (v) 1.75 to 1.00 as of the fiscal quarter ending June 30, 2021, (vi) 1.70 to 1.00 as of the fiscal quarter ending September 30, 2021, (vii) 1.65 to 1.00 as of the fiscal quarter ending December 31, 2021 and (viii) 1.50 to 1.00 as of the end of any fiscal quarter thereafter;

(c) maximum consolidated capital expenditures not to exceed (i) $10,000,000 in 2020 and (ii) $8,000,000 in 2021 and every fiscal year thereafter; and

(d) minimum consolidated liquidity not to be less than $1,500,000 at any time.

The Credit Agreement has several borrowing and interest rate options, including the following: (a) a LIBOR rate (or a comparable successor rate) subject to a 1.75% floor or (b) a base rate equal to the greatest of (i) the prime rate, (ii) the federal funds rate plus 0.50%, (iii) the LIBOR rate for a one-month period plus 1.00% or (iv) 4.75%. Loans under the Credit Agreement bear interest at a rate per annum using the applicable indices plus a varying interest rate margin of between 5.75% and 6.75% (for LIBOR rate loans) and 4.75% and 5.75% (for base rate loans).

The Credit Agreement contains customary representations, warranties and conditions to borrowing including customary affirmative and negative covenants, which include covenants that limit or restrict the Company's ability to incur indebtedness and other obligations, grant liens to secure obligations, make investments, merge or consolidate, and dispose of assets outside the ordinary course of business, in each case subject to customary exceptions for credit facilities of this size and type.

The Company and certain operating subsidiaries of the Company guarantee the obligations under the Credit Agreement, which also are secured by liens on substantially all of the assets of the Company and its subsidiaries.

The foregoing description of the Credit Agreement is a summary only and is qualified in its entirety by reference to the full text of the Credit Amendment filed on Form 8-K on October 7, 2019.

The following unaudited pro forma condensed combined financial information of the Company gives effect to the acquisition of substantially all of the assets of Kona Grill which closed on October 4, 2019 ("the Kona Grill Acquisition") and the related financing pursuant to the terms of the Credit Agreement, all of which are collectively referred to as "the Transaction". The historical Kona Grill financial information has been adjusted in the Unaudited Pro Forma Condensed Combined Financial Information to give effect to pro forma events that are: (1) directly attributable to the Transaction, (2) factually supportable, and (3) with respect to the unaudited pro forma combined statements of operations, expected to have a continuing impact on the combined results following the business combination.

The unaudited pro forma condensed combined financial information is intended to reflect the following:

- The impact of the Kona Grill Acquisition, which will be accounted for as a business combination in accordance with ASC 805, *Business Combinations*.
- The impact of the Credit Agreement, including relevant borrowings.
- The repayment of the Company's outstanding indebtedness.

The unaudited pro forma condensed combined balance sheet as of June 30, 2019 assumes the Transaction occurred on June 30, 2019. It combines The ONE Group's unaudited condensed consolidated balance sheet as of June 30, 2019 with Kona Grill's unaudited condensed consolidated balance sheet as of June 30, 2019.

The unaudited pro forma condensed combined statements of operations and comprehensive income (loss) for the six months ended June 30, 2019 and the year ended December 31, 2018 combine the historical consolidated statements of operations of The ONE Group and Kona Grill and assume the Transaction occurred on January 1, 2018, the first day of The ONE Group's most recent fiscal year.

Unaudited Pro Forma Condensed Combined Balance Sheet
June 30, 2019
(in thousands)

	Historical The ONE Group	Kona Grill with Reclassifications	Kona Grill Closed Restaurants Adjustments		Acquisition Adjustments		Pro Forma Condensed Combined
Assets							
Cash and cash equivalents	$ 799	$ 6,001	$ (5,819)	6(a)	$ 7,743	4(a)	$ 8,724
Investments	-	58	(58)	6(a)	-		-
Accounts Receivable	6,567	2,183	(361)	6(a)	-		8,389
Inventory	1,365	1,053	(88)	6(a)	-		2,330
Other current assets	1,440	1,390	(754)	6(a)	(250)	4(b)	1,826
Due from related parties, net	343	-	-		-		343
Total current assets	10,514	10,685	(7,080)		7,493		21,612
Property and equipment, net	40,507	34,821	(2,713)	6(a)	(688)	4(c)	71,927
Operating lease right-of-use assets	39,367	27,166	(2,172)	6(a)	3,686	4(h)	68,047
Investments	2,684	-	-		-		2,684
Deferred tax assets, net	12	-	-		-		12
Intangible assets	-	-	-		20,400	4(d)	20,400
Other assets	338	724	(136)	6(a)	-		926
Security deposits	2,038	113	(60)	6(a)	1,682	4(e)	3,773
Total assets	$ 95,460	$ 73,509	$ (12,161)		$ 32,573		$ 189,381
Liabilities and Stockholders' Equity							
Accounts payable	$ 6,109	$ 7,981	$ (7,150)	6(a)	$ -		$ 6,940
Accrued expenses	5,343	21,655	(18,461)	6(a)	-		8,537
Deferred license revenue	191	-	-		-		191
Deferred gift card revenue and other	650	2,068	-		-		2,718
Current portion of operating lease liabilities	2,201	5,282	(360)	6(a)	(1,243)	4(h)	5,880
Current portion of long-term debt	1,065	35,667	(35,667)	6(a)	(270)	4(f)	795
Total current liabilities	15,559	72,653	(61,638)		(1,513)		25,061
Deferred license revenue, long-term	999	330	(46)	6(a)	-		1,283
Operating lease liabilities, net of current portion	54,639	37,367	(5,252)	6(a)	(6,124)	4(h)	80,630
Long-term debt, net of current portion	11,238	-	-		36,446	4(f)	47,684
Total liabilities	82,435	110,350	(66,936)		28,809		154,658
Stockholders' Equity							
Common Stock	3	134	-		(134)	4(g)	3
Preferred Stock	-	-	-		-		-
Additional paid-in capital	44,180	92,427	-		(92,427)	4(g)	44,180
Accumulated deficit	(28,190)	(128,402)	54,775	6(a)	95,325	4(g)	(6,492)
Accumulated other comprehensive loss	(2,590)	-	-		-		(2,590)
Treasury stock	-	(1,000)	-		1,000	4(g)	-
Total stockholders' equity	13,403	(36,841)	54,775		3,764		35,101
Noncontrolling interests	(378)	-	-		-		(378)
Total equity	13,025	(36,841)	54,775		3,764		34,723
Total Liabilities and Stockholders' Equity	$ 95,460	$ 73,509	$ (12,161)		$ 32,573		$ 189,381

See notes to unaudited pro forma condensed combined financial information

Unaudited Pro Forma Combined Statements of Operations and Comprehensive Income (Loss)
Six Months Ended June 30, 2019
(in thousands, except share information)

	Historical The ONE Group	Kona Grill with Reclassifications	Kona Grill Closed Restaurants Adjustments		Acquisition Adjustments		Pro Forma Condensed Combined
Revenues:							
Owned restaurant net revenues	$ 36,629	$ 64,756	$ (14,060)	7(a)	$ -		$ 87,325
Owned food, beverage and other net revenues	4,407	-	-		-		4,407
Total owned revenue	41,036	64,756	(14,060)		-		91,732
Management, license and incentive fee revenue	5,339	25	-		-		5,364
Total revenues	46,375	64,781	(14,060)		-		97,096
Cost and expenses:							
Owned operating expenses:							
Owned restaurants:							
Owned restaurants cost of sales	9,637	18,463	(4,455)	7(a)	-		23,645
Owned restaurants operating expenses	22,771	40,298	(10,789)	7(a)	-		52,280
Total owned restaurant expenses	32,408	58,761	(15,244)		-		75,925
Owned food, beverage and other expenses	4,484	-	-		-		4,484
Total owned operating expense	36,892	58,761	(15,244)		-		80,409
General and administrative (including stock-based compensation of $637 for The ONE Group and $111 for Kona Grill)	5,354	8,157	(5,625)	7(a),7(b)	-		7,886
Depreciation and amortization	1,946	4,410	(612)	7(a)	(566)	5(a)	5,178
Lease termination expenses	141	8,904	(8,904)	7(a)	-		141
Pre-opening expenses	545	-	-		-		545
Transaction costs	152	-	-		-		152
Other expense (income), net	(266)	-	-		-		(266)
Total costs and expenses	44,764	80,232	(30,385)		(566)		94,045
Operating income	1,611	(15,451)	16,325		566		3,051
Other expenses (income), net:							
Interest expense, net of interest income	487	1,056	(1,056)	7(a)	1,707	5(b)	2,194
Loss on early extinguishment of debt	437	-	-		-		437
Total other expenses (income), net	924	1,056	(1,056)		1,707		2,631
Income before provision for income taxes	687	(16,507)	17,381		(1,141)		420
Provision for income taxes	81	11	-		-		92
Net income (loss)	606	(16,518)	17,381		(1,141)		328
Less: net income attributable to noncontrolling interest	74	-	-		-		74
Net income (loss) attributable to The ONE Group Hospitality, Inc.	532	(16,518)	17,381		(1,141)		254
Currency translation loss	(280)	-	-		-		(280)
Comprehensive income (loss)	$ 252	$ (16,518)	$ 17,381		$ (1,141)		$ (26)
Net income (loss) attributable to The ONE Group Hospitality, Inc. per share:							
Basic net income (loss) from continuing operations per share	$ 0.02						$ 0.01
Diluted net income (loss) per share	$ 0.02						$ 0.01
Shares used in computing basic earnings per share	28,373,974						28,373,974
Shares used in computing diluted earnings per share	29,456,764						29,456,764

See notes to unaudited pro forma condensed combined financial information

Unaudited Pro Forma Combined Statements of Operations and Comprehensive Income (Loss)
Year Ended December 31, 2018
(in thousands, except share information)

	Historical The ONE Group	Kona Grill with Reclassifications	Kona Grill Closed Restaurants Adjustments		Acquisition Adjustments		Pro Forma Condensed Combined
Revenues:							
Owned restaurant net revenues	$ 65,896	$ 156,225	$ (54,054)	7(a)	$ -		$ 168,067
Owned food, beverage and other net revenues	8,137	-	-		-		8,137
Total owned revenue	74,033	156,225	(54,054)		-		176,204
Management, license and incentive fee revenue	11,568	717	(436)	7(a)	-		11,849
Total revenues	85,601	156,942	(54,490)		-		188,053
Cost and expenses:							
Owned operating expenses:							
Owned restaurants:							
Owned restaurants cost of sales	17,220	40,782	(14,068)	7(a)	-		43,934
Owned restaurants operating expenses	39,599	98,214	(40,989)	7(a)	-		96,824
Total owned restaurant expenses	56,819	138,996	(55,057)		-		140,758
Owned food, beverage and other expenses	7,865	-			-		7,865
Total owned operating expense	64,684	138,996	(55,057)		-		148,623
General and administrative (including stock-based compensation of $1,313 for The ONE Group and $573 for Kona Grill)	11,119	11,430	(5,986)	7(a),7(b)	-		16,563
Depreciation and amortization	2,824	13,597	(5,011)	7(a)	(2,122)	5(a)	9,288
Asset impairment charge	-	18,325	(12,762)	7(a)	-		5,563
Lease termination expense and asset write-offs	213	4,053	(4,053)	7(a)	-		213
Pre-opening expenses	1,365	-	-		-		1,365
Equity in income of investee companies	(182)	-	-		-		(182)
Other expense (income), net	(235)	-	-		-		(235)
Total costs and expenses	79,788	186,401	(82,869)		(2,122)		181,198
Operating income	5,813	(29,459)	28,379		2,122		6,855
Other expenses (income), net:							
Interest expense, net of interest income	1,193	2,463	(2,463)	7(a)	2,738	5(b)	3,931
Loss on early extinguishment of debt	-	37	(37)	7(a)	-		-
Total other expenses (income), net	1,193	2,500	(2,500)		2,738		3,931
Income before provision for income taxes	4,620	(31,959)	30,879		(616)		2,924
Provision for income taxes	713	9	-		-		722
Net income (loss)	3,907	(31,968)	30,879		(616)		2,202
Less: net income attributable to noncontrolling interest	633	-	-		-		633
Net income (loss) attributable to The ONE Group Hospitality, Inc.	3,274	(31,968)	30,879		(616)		1,569
Currency translation loss	(754)	-	-		-		(754)
Comprehensive income (loss)	$ 2,520	$ (31,968)	$ 30,879		$ (616)		$ 815
Net income (loss) attributable to The ONE Group Hospitality, Inc. per share:							
Basic net income (loss) per share	$ 0.12						$ 0.06
Diluted net income (loss) per share	$ 0.12						$ 0.06
Shares used in computing basic earnings per share	27,653,827						27,653,827
Shares used in computing diluted earnings per share	28,122,445						28,122,445

See notes to unaudited pro forma condensed combined financial information

Notes to Unaudited Pro Forma Condensed Combined Financial Information

Note 1 – Basis of Presentation

The unaudited pro forma condensed combined balance sheet and statements of operations and comprehensive income (loss) were derived from the historical audited and unaudited consolidated financial statements of The ONE Group and Kona Grill. The unaudited pro forma condensed combined balance sheet as of June 30, 2019 assumes the Transaction occurred on June 30, 2019. The unaudited pro forma condensed consolidated statements of operations and comprehensive income (loss) assume the Transaction occurred on January 1, 2018, the first day of The ONE Group's most recent fiscal year.

The historical consolidated financial information has been adjusted in the unaudited pro forma financial information to give effect to pro forma events that are directly attributable to the business combination. There were no material transactions between The ONE Group and Kona Grill during the periods presented that would need to be eliminated.

The unaudited pro forma combined financial information provided are for illustrative purposes only, and do not purport to represent what the combined company's financial position or results of operations would have been had the acquisition occurred on the dates indicated. They also may not be useful in predicting the future financial condition and results of operations of the combined company. The actual financial condition and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors. In addition, the unaudited pro forma combined financial information does not reflect any future planned cost savings initiatives following the completion of the business combination.

The unaudited pro forma combined financial information reflects the acquisition method of accounting prescribed by ASC 805, *Business Combinations ("ASC 805")*. The acquisition method of accounting requires use of the fair value concepts defined in ASC 820, *Fair Value Measurements ("ASC 820")*. ASC 820 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." Fair value measurements are highly subjective and it is possible the application of reasonable judgment could result in different assumptions causing a range of alternative estimates using the same facts and circumstances.

ASC 805 requires the determination of the accounting acquirer, the acquisition date, the fair value of assets and liabilities of the acquiree and the measurement of goodwill. The ONE Group has been identified as the acquirer for accounting purposes based on the facts and circumstances specific to the Transaction. As a result, The ONE Group will record the business combination in its financial statements and will apply the acquisition method to account for the acquired assets and liabilities of Kona Grill. For purposes of the unaudited condensed combined financial information, management made a preliminary allocation of the consideration paid to the assets acquired and liabilities assumed based on the information available and management's preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed. Accordingly, the pro forma adjustments related to the allocation of consideration paid are preliminary and have been presented solely for the purpose of providing unaudited pro forma condensed combined balance sheets and pro forma condensed combined statements of operations and comprehensive income (loss) in the Current Report on Form 8-K/A. Management expects to finalize the accounting for the business combination as soon as practicable within the measurement period in accordance with ASC 805, but in no event later than one year from October 4, 2019. The finalization of the purchase accounting assessment may result in changes to the valuation of assets acquired and liabilities assumed, which could be material.

Footnotes Related to the Kona Grill Acquisition

Note 2 – Reclassifications

Certain reclassifications have been made to conform Kona Grill's financial information presentation to that of The ONE Group as indicated in the tables below. The reclassification adjustments to conform Kona Grill's financial information presentation to that of The ONE Group's have no impact on net assets or net income (loss) and are summarized below:

Reclassifications in the unaudited pro forma condensed combined balance sheet as of June 30, 2019 (in thousands):

	Kona Grill as Presented by Management	Reclassifications to The ONE Group's Presentation		Kona Grill with Reclassifications
Assets				
Cash and cash equivalents	$ 7,830	$ (1,829)	(a)	$ 6,001
Investments	58	-		58
Accounts Receivable	354	1,829	(a)	2,183
Inventory	1,053	-		1,053
Other current assets	1,390	-		1,390
Total current assets	10,685	-		10,685
Property and equipment, net	34,821	-		34,821
Operating lease right-of-use assets	27,166	-		27,166
Other assets	837	(113)	(b)	724
Security deposits	-	113	(b)	113
Total assets	$ 73,509	$ -		$ 73,509
Liabilities and Stockholders' Equity				
Accounts payable	$ 1,064	$ 6,917	(c)	$ 7,981
Accrued expenses	8,559	13,096	(c), (e)	21,655
Deferred gift card revenue and other	-	2,068	(e)	2,068
Current portion of operating lease liabilities	5,282	-		5,282
Current portion of long-term debt	2,500	33,167	(c)	35,667
Total current liabilities	17,405	55,248		72,653
Deferred license revenue, long-term	-	330	(d)	330
Operating lease liabilities, net of current portion	37,367	-		37,367
Deferred revenue	330	(330)	(d)	-
Liabilities subject to compromise	55,248	(55,248)	(c)	-
Total liabilities	110,350	-		110,350
Stockholders' Equity				
Common Stock	134	-		134
Preferred Stock	-	-		-
Additional paid-in capital	92,428	-		92,428
Accumulated deficit	(128,403)	-		(128,403)
Accumulated other comprehensive income	-	-		-
Treasury stock	(1,000)	-		(1,000)
Total stockholders' equity	(36,841)	-		(36,841)
Noncontrolling interests	-	-		-
Total equity	(36,841)	-		(36,841)
Total Liabilities and Stockholders' Equity	$ 73,509	$ -		$ 73,509

(a) Represents reclassification of $1,829,000 from cash and cash equivalents to accounts receivable for credit card transactions that are typically received within 1-3 business days.
(b) Represents reclassification of $113,000 in deposits from other assets to security deposits.
(c) Represents reclassification of $55,248,000 in liabilities subject to compromise to respective liability within the balance sheet. As a result of Kona Grill's bankruptcy filing all liabilities incurred prior to the bankruptcy filing were recorded as liabilities subject to compromise.
(d) Represents reclassification of $330,000 from deferred revenue to deferred license revenue, long-term.
(e) Represents reclassification of $2,068,000 from accrued expenses to deferred gift card revenue and other.

Reclassifications in the unaudited pro forma condensed combined statements of operations and comprehensive income (loss) for the six months ended June 30, 2019 (in thousands):

	Kona Grill as Presented by Management	Reclassifications to The ONE Group's Presentation		Kona Grill with Reclassifications
Revenues:				
Owned restaurant net revenues	$ 64,781	$ (25)	(a)	$ 64,756
Owned food, beverage and other net revenues	-	-		-
Total owned revenue	64,781	(25)		64,756
Management, license and incentive fee revenue	-	25	(a)	25
Total revenues	64,781	-		64,781
Cost and expenses:				
Owned operating expenses:				
Owned restaurants:				
Owned restaurants cost of sales	18,463	-		18,463
Owned restaurants operating expenses	9,719	30,579	(b)	40,298
Owned restaurants labor	24,208	(24,208)	(b)(c)	-
Owned restaurants occupancy	6,374	(6,374)	(b)	-
Total owned restaurant expenses	58,764	(3)		58,761
Owned food, beverage and other expenses	-	-		-
Total owned operating expense	58,764	(3)		58,761
General and administrative (including stock-based compensation of $456 for The ONE Group and $111 for Kona Grill)	8,154	3	(c)	8,157
Depreciation and amortization	4,410	-		4,410
Lease termination expenses	8,904	-		8,904
Total costs and expenses	80,232	-		80,232
Operating income	(15,451)	-		(15,451)
Other expenses, net:				
Interest expense, net of interest income	1,056	-		1,056
Total other expenses, net	1,056	-		1,056
Income before provision for income taxes	(16,507)	-		(16,507)
Provision for income taxes	11	-		11
Net income (loss)	(16,518)	-		(16,518)
Less: net income attributable to noncontrolling interest	-	-		-
Net income (loss) attributable to The ONE Group Hospitality, Inc.	(16,518)	-		(16,518)
Currency translation loss	-	-		-
Comprehensive income (loss)	$ (16,518)	$ -		$ (16,518)

(a) Represents the reclassification of $25,000 from owned restaurant net revenues to management, license and incentive fee revenue associated with franchise activity
(b) Represents the reclassification of labor, occupancy and restaurant operating expenses to owned restaurants operating expenses
(c) Represents the reclassification of $3,000 in stock-based compensation for restaurant employees from labor to general and administrative

Reclassifications in the unaudited pro forma condensed combined statements of operations and comprehensive income (loss) for year ended December 31, 2018 (in thousands):

	Kona Grill as Presented by Management	Reclassifications to The ONE Group's Presentation	Kona Grill with Reclassifications
Revenues:			
Owned restaurant net revenues	$ 156,942	$ (717)(a)	$ 156,225
Owned food, beverage and other net revenues	-	-	-
Total owned revenue	156,942	(717)	156,225
Management, license and incentive fee revenue	-	717(a)	717
Total revenues	156,942	-	156,942
Cost and expenses:			
Owned operating expenses:			
Owned restaurants:			
Owned restaurants cost of sales	40,782	-	40,782
Owned restaurants operating expenses	24,523	73,691(b)	98,214
Owned restaurants labor	57,378	(57,378)(b)(c)	-
Owned restaurants occupancy	16,339	(16,339)(b)	-
Total owned restaurant expenses	139,022	(26)	138,996
Owned food, beverage and other expenses	-	-	-
Total owned operating expense	139,022	(26)	138,996
General and administrative (including stock-based compensation of $1,313 for The ONE Group and $573 for Kona Grill)	11,404	26(c)	11,430
Depreciation and amortization	13,597	-	13,597
Asset impairment charge	18,325	-	18,325
Lease termination expense and asset write-offs	4,053	-	4,053
Total costs and expenses	186,401	-	186,401
Operating income	(29,459)	-	(29,459)
Other expenses, net:			
Interest expense, net of interest income	2,463	-	2,463
Loss on early extinguishment of debt	37	-	37
Total other expenses, net	2,500	-	2,500
Income before provision for income taxes	(31,959)	-	(31,959)
Provision for income taxes	9	-	9
Net income (loss)	(31,968)	-	(31,968)
Less: net income attributable to noncontrolling interest	-	-	-
Net income (loss) attributable to The ONE Group Hospitality, Inc.	(31,968)	-	(31,968)
Currency translation loss	-	-	-
Comprehensive income (loss)	$ (31,968)	$ -	$ (31,968)

(a) Represents the reclassification of $717,000 from owned restaurant net revenues to management, license and incentive fee revenue associated with franchise activity
(b) Represents the reclassification of labor, occupancy and restaurant operating expenses to owned restaurants operating expenses
(c) Represents the reclassification of $26,000 in stock-based compensation for restaurant employees from labor to general and administrative

Note 3 – Preliminary Purchase Price Allocation

The Company has performed a preliminary valuation analysis of the fair value of Kona Grill's assets that were acquired and liabilities assumed. The following table summarizes the preliminary calculation of consideration transferred and the allocation of the purchase price to the net assets acquired (amounts in thousands):

Net assets acquired:		
Total current assets	$	3,000
Property and equipment		31,420
Operating lease right-of-use assets		28,680
Intangible assets		20,400
Current liabilities		(7,738)
Other liabilities		(285)
Operating lease liabilities		(29,670)
Total net assets acquired	$	45,807
Preliminary purchase consideration:		
Contractual purchase price	$	25,000
Apportionment of rent, utilities as of the Transaction date		775
Assumption of real estate lease consultant contract		465
Escrow deposit, net of cash acquired		21
Pro forma preliminary consideration paid	$	26,261
Bargain purchase gain attributable to Kona Grill acquisition	$	19,546

Note 4 – Adjustments to the Unaudited Pro Forma Condensed Combined Balance Sheet as of Pro Forma Balance Sheet Date

(a) Cash and cash equivalents – The increase in cash and cash equivalents was determined as follows (amounts in thousands):

As of June 30, 2019

Sources		Amount	Uses		Amount
Term Loan	$	48,000	Consideration, transferred, net of cash acquired	$	25,775
Revolver		2,000	Repayment of The ONE Group's debt		12,150
			Repayment of cash collateralized letters of credit		1,682
			Fees and expenses		2,650
			Cash to The ONE Group's pro forma balance sheet		7,743
Total Sources	**$**	**50,000**	**Total Uses**	**$**	**50,000**

(b) Other current assets – The decrease of other current assets represents the application of the escrow deposit to the purchase price.

(c) Property and equipment, net – The change in property and equipment represents the change from Kona Grill's historical net book value to the preliminary estimated fair value as follows (amounts in thousands):

As of June 30, 2019

Asset Class	Estimated Preliminary Fair Value	Historical Book Value	Less: Adjustment for Closed Restaurants	Adjusted Historical Book Value	Pro Forma Adjustment
Leasehold improvements	$ 23,304	$ 67,203	(2,712)	$ 64,491	$ (41,187)
Equipment	6,217	17,135	(182)	16,953	(10,736)
Furniture and fixtures	1,899	7,121	(108)	7,013	(5,114)
Construction in progress	-	258	(240)	18	(18)
Accumulated depreciation	-	(56,896)	529	(56,367)	56,367
Total property and equipment, net	**$ 31,420**	**$ 34,821**	**$ (2,713)**	**$ 32,108**	**$ (688)**

(d) Intangible assets – The increase in intangible assets of $20.4 million represents the fair value assigned to the Kona Grill tradename and assembled workforce.

(e) Security deposits – The increase in security deposits of $1.7 million reflects the replacement of cash collateralized letters of credit for certain of the Company's lease agreements with cash security deposits as a result of the Company's acquisition-related Credit Agreement.

(f) Financing transactions – The Transaction had the following effect on the unaudited pro forma condensed combined balance sheet (in thousands):

- Repayment of The ONE Group's outstanding indebtedness.
- Write-off of debt issuance costs of $0.4 million.
- Borrowings under the Credit Agreement which provides for a $48.0 million term loan and a $12.0 million revolver, of which $2.0 million was drawn at the acquisition date, offset by debt issuance costs of $2.1 million.

(g) Stockholders' equity – The decrease in equity balances consists of the following (amounts in thousands):

	June 30, 2019
Elimination of historical equity of Kona Grill	$ (17,934)
Transaction expenses incurred by The ONE Group	(511)
Bargain purchase gain	22,209
Pro forma adjustment to total stockholders' equity	**$ 3,764**

(h) Operating lease right-of-use assets and liabilities – The change in the lease asset and liability represents the change from Kona Grill's book value to the estimated preliminary fair value.

Note 5 – Adjustments to the Unaudited Pro Forma Condensed Combined Statement of Operations and Comprehensive Income (Loss) for the Six Months Ended June 30, 2019 and the Year Ended December 31, 2018

(a) Depreciation and amortization – The net decrease in depreciation and amortization expense of $0.6 million for the six months ended June 30, 2019 and $2.1 million for the year ended December 31, 2018 was determined as follows, based on preliminary estimates of fair value and estimated useful lives (amounts in thousands):

Asset Class	Useful Life	Estimated Preliminary Fair Value	Six Months Ended June 30, 2019	Year Ended December 31, 2018
Leasehold improvements	6	$ 23,304	$ 1,942	$ 3,884
Equipment	1-6	6,217	622	1,243
Furniture and fixtures	6	1,899	158	317
Construction in progress	-	-	-	-
Total recalculated depreciation expense		**$ 31,420**	**$ 2,722**	**$ 5,444**
Less: Historical Kona Grill depreciation expense			3,798	8,586
Total pro forma adjustment to depreciation expense			(1,076)	(3,142)
Intangible assets	20	$ 20,400	510	1,020
Total pro forma adjustment to depreciation and amortization expense			**$ (566)**	**$ (2,122)**

(b) Interest – The increase in interest expense of $1.7 million for the six months ended June 30, 2019 and $2.7 million for the year ended December 31, 2018 was based upon the interest rate per the Credit Agreement of LIBOR + 6.75%. For purposes of calculating interest expense, the LIBOR rate as of the beginning of each fiscal year was utilized.

Footnotes Related to the Closure of 22 Kona Grill Restaurants Prior to the Transaction

Note 6 – Adjustments to the Unaudited Pro Forma Condensed Combined Balance Sheets

(a) The adjustment reflects the elimination of the assets and liabilities attributable to the Kona Grill restaurants that were closed prior to the Transaction date to arrive at the pro forma assets of the 24 restaurants that were acquired and liabilities assumed as part of the Transaction.

Note 7 – Adjustments to the Unaudited Pro Forma Condensed Combined Statements of Operations and Comprehensive Income (Loss)

(a) The adjustment reflects the elimination of the operating results attributable to the restaurants that were closed prior to the Transaction date to arrive at the pro forma operations of the 24 restaurants purchased as part of the Transaction.

(b) General and administrative – The adjustment reflects the elimination of general and administrative expenses attributable to personnel, travel and overhead costs attributable to the closed restaurants. The adjustment also reflects the elimination of restructuring costs related to Kona Grill's Chapter 11 bankruptcy filing on April 30, 2019 and public company related costs. The pro forma results do not reflect anticipated savings due to costs that may be reduced or eliminated.