

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 September 30, 2021

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 001-37379

THE ONE GROUP HOSPITALITY, INC.

(Exact name of registrant as specified in its charter)

<u>Delaware</u>	<u>14-1961545</u>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
<u>1624 Market Street, Suite 311, Denver, Colorado</u>	<u>80202</u>
(Address of principal executive offices)	Zip Code

646-624-2400

(Registrant's telephone number, including area code)

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

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

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

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

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

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

Indicate by 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 October 31, 2021: 32,107,635

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

THE ONE GROUP HOSPITALITY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share information)

	September 30, 2021	December 31, 2020
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,078	\$ 24,385
Accounts receivable	8,348	5,777
Inventory	3,006	2,490
Other current assets	2,287	1,348
Due from related parties	376	376
Total current assets	33,095	34,376
Property and equipment, net	68,530	67,344
Operating lease right-of-use assets	83,957	80,960
Deferred tax assets, net	11,722	13,226
Intangibles, net	15,724	16,313
Other assets	3,189	2,446
Security deposits	898	904
Total assets	<u>\$ 217,115</u>	<u>\$ 215,569</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 9,849	\$ 7,404
Accrued expenses	20,911	15,684
Deferred license revenue	100	207
Deferred gift card revenue and other	975	1,990
Current portion of operating lease liabilities	5,116	4,817
Current portion of CARES Act Loans	—	10,057
Current portion of long-term debt	500	588
Total current liabilities	37,451	40,747
Deferred license revenue, long-term	318	953
Operating lease liabilities, net of current portion	102,312	98,569
CARES Act Loans, net of current portion	—	8,257
Long-term debt, net of current portion	23,196	45,064
Total liabilities	163,277	193,590
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.0001 par value, 75,000,000 shares authorized; 32,094,253 and 29,083,183 shares issued and outstanding at September 30, 2021 and December 31, 2020, respectively	3	3
Preferred stock, \$0.0001 par value, 10,000,000 shares authorized; no shares issued and outstanding at September 30, 2021 and December 31, 2020, respectively	—	—
Treasury stock	(37)	—
Additional paid-in capital	52,519	46,538
Retained earnings (accumulated deficit)	4,861	(20,716)
Accumulated other comprehensive loss	(2,690)	(2,646)
Total stockholders' equity	54,656	23,179
Noncontrolling interests	(818)	(1,200)
Total equity	53,838	21,979
Total liabilities and equity	<u>\$ 217,115</u>	<u>\$ 215,569</u>

See notes to the condensed consolidated financial statements.

THE ONE GROUP HOSPITALITY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(Unaudited, in thousands, except loss per share and related share information)

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
Revenues:				
Owned restaurant net revenue	\$ 67,966	\$ 37,822	\$ 184,982	\$ 92,908
Management, license and incentive fee revenue	3,903	1,745	8,129	4,042
Total revenues	71,869	39,567	193,111	96,950
Cost and expenses:				
Owned operating expenses:				
Owned restaurant cost of sales	17,733	9,091	46,925	23,378
Owned restaurant operating expenses	38,640	22,454	101,882	60,991
Total owned operating expenses	56,373	31,545	148,807	84,369
General and administrative (including stock-based compensation of \$653, \$496, \$2,812, and \$1,316 for the three and nine months ended September 30, 2021 and 2020, respectively)	5,959	3,400	17,272	9,235
Depreciation and amortization	2,572	2,655	7,766	7,605
COVID-19 related expenses	1,131	1,716	3,776	3,759
Agreement restructuring expenses	—	—	494	—
Pre-opening expenses	587	45	842	45
Lease termination expenses	58	185	352	453
Transaction costs	131	—	131	1,109
Other income, net	—	1	—	(11)
Total costs and expenses	66,811	39,547	179,440	106,564
Operating income (loss)	5,058	20	13,671	(9,614)
Other (income) expenses, net:				
Interest expense, net of interest income	781	1,280	3,262	3,650
Loss on early debt extinguishment	600	—	600	—
Gain on CARES Act Loan forgiveness	(9,968)	—	(18,529)	—
Total other (income) expenses, net	(8,587)	1,280	(14,667)	3,650
Income (loss) before provision (benefit) for income taxes	13,645	(1,260)	28,338	(13,264)
Provision (benefit) for income taxes	1,544	(350)	2,188	(4,231)
Net income (loss)	12,101	(910)	26,150	(9,033)
Less: net income (loss) attributable to noncontrolling interest	430	(35)	573	(687)
Net income (loss) attributable to The One Group Hospitality, Inc.	\$ 11,671	\$ (875)	\$ 25,577	\$ (8,346)
Currency translation gain (loss)	(34)	19	(44)	(23)
Comprehensive income (loss) attributable to The ONE Group Hospitality, Inc.	\$ 11,637	\$ (856)	\$ 25,533	\$ (8,369)
Net income (loss) attributable to The ONE Group Hospitality, Inc. per share:				
Basic net income (loss) per share	\$ 0.36	\$ (0.03)	\$ 0.83	\$ (0.29)
Diluted net income (loss) per share	\$ 0.34	\$ (0.03)	\$ 0.75	\$ (0.29)
Shares used in computing basic income (loss) per share	31,993,557	29,010,348	30,830,521	28,857,990
Shares used in computing diluted income (loss) per share	34,380,573	29,010,348	34,223,857	28,857,990

See notes to the condensed consolidated financial statements.

THE ONE GROUP HOSPITALITY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited, in thousands, except share information)

	Common stock		Treasury stock	Additional paid-in capital	Retained Earnings	Accumulated other comprehensive loss	Stockholders' equity	Noncontrolling interests	Total
	Shares	Par value							
Balance at December 31, 2020	29,083,183	\$ 3	\$ —	\$ 46,538	\$ (20,716)	\$ (2,646)	\$ 23,179	\$ (1,200)	\$ 21,979
Stock-based compensation	25,643	—	—	1,022	—	—	1,022	—	1,022
Exercise of stock options and warrants	450,971	—	—	—	—	—	—	—	—
Issuance of common shares, net of tax withholding	67,685	—	—	(154)	—	—	(154)	—	(154)
Purchase of noncontrolling interest	—	—	—	116	—	—	116	(191)	(75)
Loss on foreign currency translation, net	—	—	—	—	—	(18)	(18)	—	(18)
Net income (loss)	—	—	—	—	70	—	70	(130)	(60)
Balance at March 31, 2021	29,627,482	\$ 3	\$ —	\$ 47,522	\$ (20,646)	\$ (2,664)	\$ 24,215	\$ (1,521)	\$ 22,694
Stock-based compensation	9,210	—	—	741	—	—	741	—	741
Exercise of stock options and warrants	931,558	—	—	3,151	—	—	3,151	—	3,151
Issuance of common shares, net of tax withholding	1,297,525	—	—	—	—	—	—	—	—
Gain on foreign currency translation, net	—	—	—	—	—	8	8	—	8
Net income (loss)	—	—	—	—	13,836	—	13,836	273	14,109
Balance at June 30, 2021	31,865,775	\$ 3	\$ —	\$ 51,414	\$ (6,810)	\$ (2,656)	\$ 41,951	\$ (1,248)	\$ 40,703
Stock-based compensation	18,978	—	—	679	—	—	679	—	679
Exercise of stock options	200,000	—	—	426	—	—	426	—	426
Issuance of common shares, net of tax withholding	9,500	—	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	(37)	—	—	—	(37)	—	(37)
Loss on foreign currency translation, net	—	—	—	—	—	(34)	(34)	—	(34)
Net income (loss)	—	—	—	—	11,671	—	11,671	430	12,101
Balance at September 30, 2021	32,094,253	\$ 3	\$ (37)	\$ 52,519	\$ 4,861	\$ (2,690)	\$ 54,656	\$ (818)	\$ 53,838
Balance at December 31, 2019	28,603,829	\$ 3	\$ —	\$ 44,853	\$ (7,891)	\$ (2,651)	\$ 34,314	\$ (402)	\$ 33,912
Stock-based compensation	69,327	—	—	338	—	—	338	—	338
Exercise of stock options	18,000	—	—	38	—	—	38	—	38
Issuance of common shares, net of tax withholding	116,644	—	—	—	—	—	—	—	—
Loss on foreign currency translation, net	—	—	—	—	—	(44)	(44)	—	(44)
Net income (loss)	—	—	—	—	(4,599)	—	(4,599)	(274)	(4,873)
Balance at March 31, 2020	28,807,800	\$ 3	\$ —	\$ 45,229	\$ (12,490)	\$ (2,695)	\$ 30,047	\$ (676)	\$ 29,371
Stock-based compensation	58,929	—	—	482	—	—	482	—	482
Issuance of common shares, net of tax withholding	93,418	—	—	(90)	—	—	(90)	—	(90)
Gain on foreign currency translation, net	—	—	—	—	—	2	2	—	2
Net income (loss)	—	—	—	—	(2,872)	—	(2,872)	(378)	(3,250)
Balance at June 30, 2020	28,960,147	\$ 3	\$ —	\$ 45,621	\$ (15,362)	\$ (2,693)	\$ 27,569	\$ (1,054)	\$ 26,515
Stock-based compensation	61,566	—	—	496	—	—	496	—	496
Issuance of common shares, net of tax withholding	9,133	—	—	(13)	—	—	(13)	—	(13)
Gain on foreign currency translation, net	—	—	—	—	—	19	19	—	19
Net income (loss)	—	—	—	—	(875)	—	(875)	(35)	(910)
Balance at September 30, 2020	29,030,846	\$ 3	\$ —	\$ 46,104	\$ (16,237)	\$ (2,674)	\$ 27,196	\$ (1,089)	\$ 26,107

See notes to the condensed consolidated financial statements.

THE ONE GROUP HOSPITALITY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	For the nine months ended September 30,	
	2021	2020
Operating activities:		
Net income (loss)	\$ 26,150	\$ (9,033)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,766	7,605
Stock-based compensation	2,442	1,316
CARES Act loan forgiveness	(18,529)	—
Amortization of debt issuance costs	321	356
Deferred taxes	1,504	(4,272)
Loss on early debt extinguishment	600	—
Changes in operating assets and liabilities:		
Accounts receivable	(2,611)	4,567
Inventory	(516)	802
Other current assets	(811)	(299)
Due from related parties	—	(35)
Security deposits	7	315
Other assets	(348)	(986)
Accounts payable	2,314	(706)
Accrued expenses	5,454	241
Operating lease liabilities and right-of-use assets	1,045	710
Deferred gift card and license revenue	(1,758)	(1,256)
Net cash provided by (used in) operating activities	<u>23,030</u>	<u>(675)</u>
Investing activities:		
Purchase of property and equipment	(8,112)	(2,660)
Net cash used in investing activities	<u>(8,112)</u>	<u>(2,660)</u>
Financing activities:		
Proceeds from CARES Act Loans	—	18,314
Repayments of long-term debt	(22,633)	(592)
Debt issuance costs	(866)	(50)
Exercise of stock options and warrants	3,577	38
Tax-withholding obligation on stock based compensation	(154)	(103)
Purchase of treasury stock	(37)	—
Purchase of non-controlling interests	(75)	—
Net cash provided by financing activities	<u>(20,188)</u>	<u>17,607</u>
Effect of exchange rate changes on cash	(37)	(51)
Net increase in cash and cash equivalents	<u>(5,307)</u>	<u>14,221</u>
Cash and cash equivalents, beginning of period	24,385	12,344
Cash and cash equivalents, end of period	<u>\$ 19,078</u>	<u>\$ 26,565</u>
Supplemental disclosure of cash flow data:		
Interest paid	\$ 3,118	\$ 2,871
Income taxes paid	\$ 53	\$ 253
Non-cash CARES Act loan forgiveness	\$ 18,529	\$ —
Non-cash property and equipment additions	\$ —	\$ 303

See notes to the condensed consolidated financial statements.

THE ONE GROUP HOSPITALITY, INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1 – Summary of Business and Significant Accounting Policies

Summary of Business

The ONE Group Hospitality, Inc. and its subsidiaries (collectively, the “Company”) is a global hospitality company that develops, owns and operates, manages and licenses upscale and polished casual, high-energy restaurants and lounges and provides turn-key food and beverage (“F&B”) services for hospitality venues including hotels, casinos and other high-end locations. Turn-key F&B services are food and beverage services that can be scaled, customized and implemented by the Company for the client at a particular hospitality venue. The Company’s primary restaurant brands are STK, a multi-unit steakhouse concept that combines a high-energy, social atmosphere with the quality and service of a traditional upscale steakhouse, and Kona Grill, a polished casual bar-centric grill concept featuring American favorites, award-winning sushi, and specialty cocktails in a polished casual atmosphere.

As of September 30, 2021, the Company-owned, operated, managed, or licensed 60 venues, including 23 STKs and 24 Kona Grills in major metropolitan cities in North America, Europe and the Middle East and 13 F&B venues in six hotels and casinos in the United States and Europe. In January 2021, the Company opened a managed STK restaurant in Scottsdale, Arizona. In the second quarter of 2021, the Company opened a managed STK restaurant in the Westminster area of London, United Kingdom and a licensed STK restaurant within the Los Cabos International Airport in San Jose del Cabo, Mexico which represents the STK brand’s debut at an airport. In May 2021, the Company also opened Bao Yum, a new brand under ONE Hospitality, and commenced management of certain F&B hospitality management services at the Westminster Curio Hotel in London, United Kingdom. In July 2021, the Company opened an owned STK restaurant in Bellevue, Washington. In August 2021, the Company entered into a management agreement for Rivershore Bar & Grill in Oregon City, Oregon. For those restaurants that are managed or licensed, the Company generates management fee revenue based on top-line revenues and incentive fee revenue based on a percentage of the location’s revenues and profits.

COVID-19

The COVID-19 pandemic has significantly impacted the Company’s business. Beginning in mid-March 2020, the Company experienced a significant reduction in guest traffic due to government mandated restrictions resulting in the temporary closure of several restaurants and the shift in operations to provide only take-out and delivery service. Starting in May 2020, state and local governments began easing restrictions on stay-at-home orders; however, certain states reimposed restrictions as COVID-19 cases increased during the fall of 2020. In February 2021, many jurisdictions began easing restrictions once again and the Company has experienced strong sales momentum coming out of the pandemic. Currently, all domestic and international restaurants are open for in-person dining. The Company has taken significant steps to adapt its business to increase sales while providing a safe environment for guests and employees.

Given the ongoing uncertainty surrounding the COVID-19 pandemic, the Company cannot reasonably predict if the sales and profitability levels coming out of the pandemic will continue for the remainder of 2021. It is possible that an increase in cases could result in restrictions on in-restaurant dining operations that could materially and negatively affect the Company’s results of operations. The Company’s continuation of normal dining operations is subject to events beyond its control, including the effectiveness of governmental efforts to halt the spread of COVID-19.

Basis of Presentation

The accompanying condensed consolidated balance sheet as of December 31, 2020, which has been derived from audited financial statements, and the accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and in accordance with accounting principles generally accepted in the United States (“GAAP”). Certain information and footnote disclosures normally included in annual audited financial statements have been omitted pursuant to SEC rules and regulations. These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020.

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In the Company's opinion, the accompanying unaudited interim financial statements reflect all adjustments (consisting only of normal recurring accruals and adjustments) necessary for a fair presentation of the results for the interim periods presented. The results of operations for any interim period are not necessarily indicative of the results expected for the full year. Additionally, the Company believes that the disclosures are sufficient for interim financial reporting purposes.

Prior Period Reclassifications

Certain reclassifications of the 2020 amounts in the accrued expenses and segment reporting footnotes have been made to conform to the current year presentation.

Recent Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." ASU 2020-04 provides temporary optional expedients and exceptions to ease financial reporting burdens related to applying GAAP to modifications of contracts, hedging relationships and other transactions in connection with the transition from the London Interbank Offered Rate ("LIBOR") and other interbank offered rates to alternative reference rates. In January 2021, the FASB issued ASU 2021-01 to clarify that certain optional expedients and exceptions apply to modifications of derivative contracts and certain hedging relationships affected by changes in the interest rates used for discounting cash flows, computing variation margin settlements, and for calculating price alignment interest. ASU 2020-04 is effective beginning on March 12, 2020 and may be applied prospectively to such transactions through December 31, 2022. ASU 2021-01 is effective beginning on January 7, 2021 and may be applied retrospectively or prospectively to such transactions through December 31, 2022. The Company is currently evaluating ASU 2020-04 and ASU 2021-01 and assessing the impact on its financial statements.

In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes," ("ASU 2019-12") which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Accounting Standard Codification Topic 740, Income Taxes, and it clarifies and amends existing guidance to improve consistent application. ASU 2019-12 is effective for annual and interim periods beginning after December 15, 2020. The Company adopted ASU No. 2019-12 on January 1, 2021 and it did not have a significant impact to the consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This update requires companies to measure credit losses utilizing a methodology that reflects expected credit losses and requires a consideration of a broader range of reasonable and supportable information to estimate credit losses. ASU 2016-13 is effective for smaller reporting companies for fiscal years beginning after December 15, 2022. The Company is currently evaluating ASU 2016-13 and assessing the impact on its financial statements.

Note 2 – Property and Equipment, net

Property and equipment, net consist of the following (in thousands):

	September 30, 2021	December 31, 2020
Furniture, fixtures and equipment	\$ 23,464	\$ 22,328
Leasehold improvements	75,901	71,654
Less: accumulated depreciation	(37,460)	(30,948)
Subtotal	61,905	63,034
Construction in progress	4,372	2,294
Restaurant smallwares	2,253	2,016
Total	<u>\$ 68,530</u>	<u>\$ 67,344</u>

Depreciation related to property and equipment was \$2.3 million and \$2.5 million for the three months ended September 30, 2021 and 2020, respectively, and \$7.1 million and \$6.9 million for the nine months ended September 30, 2021 and 2020, respectively. The Company does not depreciate construction in progress, assets not yet put into service or restaurant smallwares.

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Note 3 – Intangibles, net

Intangibles, net consists of the following (in thousands):

	September 30, 2021	December 31, 2020
Kona Grill trade name	\$ 17,400	\$ 17,400
Other finite-lived intangible assets	66	—
Less: accumulated amortization	(1,742)	(1,087)
Total intangibles, net	<u>\$ 15,724</u>	<u>\$ 16,313</u>

The Kona Grill trade name and other finite-lived intangible assets are amortized using the straight-line method over its estimated useful life of 10 to 20 years. Amortization expense was \$0.3 million and \$0.2 million for the three months ended September 30, 2021 and 2020, respectively, and \$0.7 million for each of the nine months ended September 30, 2021 and 2020. The Company's estimated aggregate amortization expense for each of the five succeeding fiscal years is approximately \$0.9 million annually.

Note 4 – Accrued Expenses

Accrued expenses consist of the following (in thousands):

	September 30, 2021	December 31, 2020
Payroll and related (1)(2)	\$ 7,860	\$ 4,860
Accrued lease exit costs (3)	4,144	4,144
VAT and sales taxes	2,309	1,119
Amounts due to landlords	1,757	1,883
Insurance	661	330
Interest	129	474
Legal, professional and other services	357	301
Income taxes and related	508	—
Construction on new restaurants	69	—
Other	3,117	2,573
Total	<u>\$ 20,911</u>	<u>\$ 15,684</u>

(1) Payroll and related includes \$2.6 million in employer payroll taxes at September 30, 2021 and December 31, 2020 for which payment has been deferred under the CARES Act.

(2) Amount relates to lease exit costs for restaurants never built and still under dispute with landlords.

Note 5 – Long-Term Debt and CARES Act Loans

Long-term debt consists of the following (in thousands):

	September 30, 2021	December 31, 2020
Term loan agreements	\$ 24,875	\$ 47,400
Revolving credit facility	—	—
Equipment financing agreements	—	108
Total long-term debt	24,875	47,508
Less: current portion of long-term debt	(500)	(588)
Less: debt issuance costs	(1,179)	(1,856)
Total long-term debt, net of current portion	<u>\$ 23,196</u>	<u>\$ 45,064</u>

Interest expense for all the Company's debt arrangements, excluding the amortization of debt issuance costs and other discounts and fees, was \$0.7 million and \$1.2 million for the three months ended September 30, 2021 and 2020, respectively, and \$2.9 million and \$3.3 million for the nine months ended September 30, 2021 and 2020, respectively.

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As of September 30, 2021, the Company had \$1.3 million in standby letters of credit outstanding for certain restaurants and \$10.7 million available in its revolving credit facility, subject to certain conditions.

Credit and Guaranty Agreement

On October 4, 2019, in conjunction with the acquisition of Kona Grill, the Company entered into a credit and guaranty agreement with Goldman Sachs Bank USA (“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.

On August 6, 2021, the Company entered into the Third Amendment to the Credit Agreement with Goldman Sachs Bank USA. The amended agreement provides for additional flexibility and extends the maturity date for both the term loan and revolving credit facility by five years to August 2026. The amendment provides for a secured revolving credit facility of \$12.0 million and a \$25.0 million term loan which was reduced from \$48.0 million. The term loan is payable in quarterly installments, with the final payment due in August 2026.

A summary of other changes to the amended Credit Agreement include:

- Removes all financial covenants except a maximum net leverage ratio of 2.00 to 1.00;
- Removes restrictions on the maximum amount of capital expenditures;
- Removes restrictions on the maximum number of Company-owned new locations; and
- Removes restrictions on credit extensions with regards to the revolving credit facility

The amended Credit Agreement has several borrowing and interest rate options, including the following: (a) a LIBOR rate (or a comparable successor rate) subject to a 1.00% floor from 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) 4.00%. Loans under the amended Credit Agreement bear interest at a rate per annum using the applicable indices plus an interest rate margin of 5.00% from a variable interest rate margin of 5.75 to 6.75% (for LIBOR rate loans) and 4.00% from 4.75% to 5.75% (for base rate loans).

In conjunction with the amended Credit Agreement, the Company made a pre-payment on the loan of \$22.2 million and incurred \$0.9 million in debt issuance costs. The Company accounted for the amendment as a debt modification with a partial extinguishment and recognized a loss on early debt extinguishment of \$0.6 million for the three months ended September 30, 2021 and \$0.1 million in transaction costs.

The Company’s weighted average interest rate on the borrowings under the amended Credit Agreement as of September 30, 2021 and December 31, 2020 was 6.00% and 8.50%, respectively.

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, alter the organizational structure of the Company and its subsidiaries, 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.

As of September 30, 2021, the Company had \$1.2 million of debt issuance costs related to the amended Credit Agreement, which were capitalized and are recorded as a direct deduction to the long-term debt and \$0.6 million in debt issuance costs recorded in Other Assets on the condensed consolidated balance sheets. As of September 30, 2021, the Company was in compliance with the financial covenants required by the Credit Agreement.

Equipment Financing Agreements

On June 5, 2015 and August 16, 2016, the Company entered into financing agreements with Sterling National Bank for \$1.0 million and \$0.7 million, respectively, to purchase equipment for the STKs in Orlando, Chicago, San Diego, and Denver. Each of these financing agreements has five-year terms and bear interest at a rate of 5% per annum, payable in equal monthly installments. The financing agreements were fully paid as of September 30, 2021.

CARES Act Loans

On May 4, 2020, two subsidiaries of the Company entered into promissory notes (“CARES Act Loans”) with BBVA USA under the Paycheck Protection Program (“PPP”) created by the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). Repayment of the CARES Act Loans was guaranteed by the U.S. Small Business Administration (“SBA”). The ONE Group, LLC received a loan of \$9.8 million related to the operations of STK restaurants, and Kona Grill Acquisition, LLC received a loan of \$8.5 million related to the operation of Kona Grill restaurants.

The CARES Act Loans were eligible for forgiveness if the proceeds were used for qualified purposes within a specified period and if at least 60% was spent on payroll costs. The Company used all of the proceeds from the CARES Act Loans for qualified purposes in accordance with the CARES Act and SBA regulations, and these funds supported the re-opening of in person dining and the return of approximately 3,000 furloughed employees to work.

The Company applied for forgiveness of the CARES Act Loans in February 2021. In June 2021, the Company was notified that the SBA had forgiven the CARES Act Loan for Kona Grill Acquisition, LLC in its entirety. Subsequently, in July 2021, the Company was notified that the SBA had forgiven the CARES Act Loan for The ONE Group, LLC in its entirety. As a result, the Company recognized \$10.0 million and \$18.5 million gain on CARES Act Loan forgiveness for the three and nine months ended September 30, 2021.

Note 6 – Fair Value of Financial Instruments

Cash and cash equivalents, accounts receivable, inventory, accounts payable and accrued expenses are carried at cost, which approximates fair value due to their short maturities. Long-lived assets are measured and disclosed at fair value on a nonrecurring basis if an impairment is identified. There were no long-lived assets measured at fair value as of September 30, 2021.

The Company’s long-term debt, including the current portion, is carried at cost on the condensed consolidated balance sheets. Fair value of long-term debt, including the current portion, is valued using Level 2 inputs including current applicable rates for similar instruments and approximates the carrying value of such obligations.

Note 7 – Bagatelle

As of September 30, 2021 and December 31, 2020, the Company-owned interests in the following companies, which directly or indirectly own a restaurant:

- 31.24% interest in Bagatelle NY LA Investors, LLC (“Bagatelle Investors”)
- 51.13% aggregate interest, held directly and indirectly through other entities, in Bagatelle Little West 12th, LLC (“Bagatelle NY”)

Bagatelle Investors is a holding company that has an interest in Bagatelle NY. The Company records its retained interests in Bagatelle Investors and Bagatelle NY as investments as the Company has determined that it does not have the ability to exercise significant influence over its investees, Bagatelle Investors and Bagatelle NY. As of September 30, 2021 and December 31, 2020, the Company has zero carrying value in these investments.

Net receivables from the Bagatelle entities included in due from related parties, net were \$0.4 million as of September 30, 2021 and December 31, 2020. These receivables represent the Company’s maximum exposure to loss. Upon expiration of the lease in November 2020, the Company exited its contract with Bagatelle.

Note 8 – Income taxes

Income taxes for the three and nine months ended September 30, 2021 are recorded at the Company’s estimated annual effective income tax rate, subject to adjustments for discrete events, should they occur. The Company’s effective income tax rate including discrete events was 11.3% and 7.7% for the three and nine months ended September 30, 2021 compared to 27.8% and 31.9% for the three and nine months ended September 30, 2020, respectively. The Company’s annualized effective tax rate is estimated at approximately 11.0% for 2021. The Company’s projected annual effective tax rate differs from the statutory U.S. tax rate of 21% primarily due to the following: (i) tax credits for FICA taxes on certain employees’ tips (ii) taxes owed in foreign jurisdictions such as

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the United Kingdom, Canada and Italy; (iii) taxes owed in state and local jurisdictions; (iv) the tax effect of non-deductible compensation and (v) forgiveness of the CARES Act Loan is non-taxable. Income tax provision recorded for the three and nine months ended September 30, 2021 also included the discrete period tax benefits resulting from the vesting of restricted stock units and exercise of stock options.

The CARES Act includes provisions allowing for the carryback of net operating losses generated for specific periods and technical amendments regarding the expensing of qualified improvement property. The CARES Act also allows for the deferral of the employer-paid portion of social security taxes, which the Company has elected to defer.

The Company is subject to income taxes in the U.S. federal jurisdiction, and the various states 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, local and foreign taxing authorities.

Note 9 – Revenue from Contracts with Customers

The following table provides information about contract receivables and liabilities from contracts with customers, which include deferred license revenue, deferred gift card revenue and the Konavore rewards program (in thousands):

	September 30, 2021	December 31, 2020
Receivables ⁽¹⁾	\$ —	\$ 125
Deferred license revenue ⁽²⁾	\$ 418	\$ 1,160
Deferred gift card and gift certificate revenue ⁽³⁾	\$ 817	\$ 1,945
Konavore rewards program ⁽⁴⁾	\$ 127	\$ 102

(1) Receivables are included in accounts receivable on the condensed consolidated balance sheets.

(2) Includes the current and long-term portion of deferred license revenue.

(3) Deferred gift card revenue and advance party deposits on goods and services yet to be provided are included in deferred gift card revenue and other on the condensed consolidated balance sheets.

(4) Konavore rewards program is included in accrued expenses on the condensed consolidated balance sheets.

Significant changes in deferred license revenue and deferred gift card revenue for the nine months ended September 30, 2021 and 2020 are as follows (in thousands):

	September 30, 2021	September 30, 2020
Revenue recognized from deferred license revenue	\$ 134	\$ 154
Revenue recognized from deferred gift card revenue	\$ 1,232	\$ 1,173

The estimated deferred license revenue to be recognized in the future related to performance obligations that are unsatisfied as of September 30, 2021 were as follows for each year ending (in thousands):

2021, three months remaining	\$ 30
2022	90
2023	79
2024	45
2025	44
Thereafter	130
Total future estimated deferred license revenue	<u>\$ 418</u>

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Note 10 – Leases

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

	September 30, 2021	September 30, 2020
Lease cost		
Operating lease cost	\$ 10,099	\$ 9,950
Variable lease cost	4,275	(415)
Short-term lease cost	458	315
Sublease income	—	(404)
Total lease cost	\$ 14,832	\$ 9,446
Weighted average remaining lease term – operating leases	13 years	12 years
Weighted average discount rate – operating leases	8.49 %	8.10 %

Due to the negative effects of COVID-19, the Company implemented measures to reduce its costs, including negotiations with landlords regarding rent concessions. As the rent concessions received and currently being contemplated do not result in a significant increase in cash payments, the Company has elected to account for these concessions as a variable lease payment in accordance with ASC Topic 842. The Company's right-of-use assets and operating lease liabilities have not been remeasured for lease concessions received. Variable lease cost is comprised of percentage rent and common area maintenance, offset by rent concessions received as a result of COVID-19.

The Company has entered into an operating lease for a future STK restaurant in San Francisco, California that had not commenced as of September 30, 2021. The present value of the aggregate future commitment related to this lease totals \$5.6 million. The Company expects this lease, which has an initial lease term of 10 years and two five-year options, to commence within the next twelve months.

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

	September 30, 2021	September 30, 2020
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 9,211	\$ 6,263
Right-of-use assets obtained in exchange for operating lease obligations	\$ 5,369	\$ 4,968

As of September 30, 2021, maturities of the Company's operating lease liabilities are as follows (in thousands):

2021, three months remaining	\$ 3,323
2022	13,903
2023	14,350
2024	13,821
2025	12,844
Thereafter	126,988
Total lease payments	185,229
Less: imputed interest	(77,801)
Present value of operating lease liabilities	\$ 107,428

For the three months remaining in 2021, the Company's operating lease liabilities does not include future rent abatements that have been or will be negotiated with landlords.

Note 11 – Earnings Per Share

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period and income available to common stockholders. Diluted earnings per share is computed using the weighted average number of common

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shares outstanding during the period plus the dilutive effect of all potential shares of common stock including common stock issuable pursuant to stock options, warrants, and restricted stock units.

For the three and nine months ended September 30, 2021 and 2020, the income (loss) per share was calculated as follows (in thousands, except loss per share and related share data):

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Net income (loss) attributable to The One Group Hospitality, Inc.	\$ 11,671	\$ (875)	\$ 25,577	\$ (8,346)
Basic weighted average shares outstanding	31,993,557	29,010,348	30,830,521	28,857,990
Dilutive effect of stock options, warrants and restricted share units	2,387,016	—	3,393,336	—
Diluted weighted average shares outstanding	34,380,573	29,010,348	34,223,857	28,857,990
Net income (loss) available to common stockholders per share - Basic	\$ 0.36	\$ (0.03)	\$ 0.83	\$ (0.29)
Net income (loss) available to common stockholders per share - Diluted	\$ 0.34	\$ (0.03)	\$ 0.75	\$ (0.29)

For the nine months ended September 30, 2021 and 2020, zero and 1.4 million stock options, warrants and restricted share units were determined to be anti-dilutive and were therefore excluded from the calculation of diluted earnings per share, respectively.

Note 12 – Stock-Based Compensation and Warrants

As of September 30, 2021, the Company had 147,256 remaining shares available for issuance under the 2019 Equity Incentive Plan (“2019 Equity Plan”).

Stock-based compensation cost for the three months ended September 30, 2021 and 2020 was \$0.7 million and \$0.5 million, respectively, and \$2.8 million and \$1.3 million for the nine months ended September 30, 2021 and 2020, respectively. Stock-based compensation is included in general and administrative expenses in the condensed consolidated statements of operations and comprehensive income (loss). Included in stock-based compensation cost was \$0.2 million and \$0.1 million of stock granted to directors for the three months ended September 30, 2021 and 2020, respectively, and \$0.4 million and \$0.3 million of stock granted to directors for the nine months ended September 30, 2021 and 2020, respectively. Such grants were awarded consistent with the Board of Director’s compensation practices and included grants to two new board members appointed in September 2021. In addition, stock-based compensation expense for the three months ended June 30, 2021 included \$0.4 million of employer payroll taxes associated with stock option and RSU activity during the quarter. Stock-based compensation for the three months ended March 31, 2021 included \$0.3 million of compensation costs for the vesting of market condition based options and RSUs.

Stock Option Activity

Stock options in the table below include both time based and market condition based awards. Changes in stock options during the nine months ended September 30, 2021 were as follows:

	Shares	Weighted average exercise price	Weighted average remaining contractual life	Intrinsic value (thousands)
Outstanding at December 31, 2020	1,707,008	\$ 3.37	4.98 years	\$ 1,454
Exercisable at December 31, 2020	1,443,675	\$ 3.57	4.68 years	\$ 1,112
Vested	594,402	\$ 3.09		
Exercised	(1,031,558)	\$ 3.22		
Cancelled, expired or forfeited	(10,000)	\$ 2.13		
Outstanding at September 30, 2021	1,259,852	\$ 3.37	4.16 years	\$ 9,219
Exercisable September 30, 2021	1,134,185	\$ 3.49	3.96 years	\$ 8,163

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A summary of the status of the Company's non-vested stock options as of December 31, 2020 and September 30, 2021 and changes during the nine months then ended, is presented below:

	Shares	Weighted average grant date fair value
Non-vested stock options at December 31, 2020	263,333	\$ 0.99
Vested	(127,667)	1.00
Cancelled, expired or forfeited	(10,000)	0.87
Non-vested stock options at September 30, 2021	<u>125,667</u>	<u>\$ 1.00</u>

The fair value of options that vested in the nine months ended September 30, 2021 was \$0.1 million. As of September 30, 2021, there is \$0.1 million of total unrecognized compensation cost related to non-vested awards, which will be recognized over a weighted-average period of 0.5 years.

Restricted Stock Unit Activity

The Company issues restricted stock units ("RSUs") under the 2019 Equity Plan. The fair value of these RSUs is determined based upon the closing fair market value of the Company's common stock on the grant date.

A summary of the status of RSUs and changes during the nine months ended September 30, 2021 is presented below:

	Shares	Weighted average grant date fair value
Non-vested RSUs at December 31, 2020	1,871,592	\$ 1.68
Granted	965,599	7.68
Vested	(1,080,175)	1.88
Cancelled, expired or forfeited	(19,333)	(4.34)
Non-vested RSUs at September 30, 2021	<u>1,737,683</u>	<u>\$ 4.90</u>

As of September 30, 2021, the Company had approximately \$7.7 million of total unrecognized compensation costs related to RSUs, which will be recognized over a weighted average period of 3.2 years.

Warrants

As of December 31, 2020, there were outstanding warrants to purchase 865,000 shares of common stock at exercise prices ranging from \$1.63 to \$2.61. During the first quarter of 2021, the Company issued 450,971 shares in connection with the net exercise by Anson Investments Master Fund LP of warrants to purchase 640,000 shares. In April 2021, the Company issued 100,000 shares to 22235570 Ontario Limited in connection with its exercise of a warrant for aggregate consideration of \$261,000. As of September 30, 2021, warrants to purchase 125,000 shares at a strike price of \$1.63 per share were outstanding to a single party.

Note 13 – Segment Reporting

The Company has identified its reportable operating segments as follows:

- **STK.** The STK segment consists of the results of operations from STK restaurant locations, competing in the full-service dining industry, as well as management, license and incentive fee revenue generated from the STK brand and operations of STK restaurant locations.
- **Kona Grill.** The Kona Grill segment includes the results of operations of Kona Grill restaurant locations.
- **ONE Hospitality.** The ONE Hospitality segment is composed of the management, license and incentive fee revenue and results of operations generated from the Company’s other brands and venue concepts, which include ANGEL, Bao Yum Heliot, Hideout, Marconi, Radio, and Rivershore. Additionally, this segment includes the results of operations generated from F&B hospitality management agreements with hotels, casinos and other high-end locations.
- **Corporate.** The Corporate segment consists of the following: general and administrative costs, stock-based compensation, depreciation and amortization, acquisition related gains and losses, lease termination expenses, transaction costs, COVID-19 related expenses and other income and expenses. This segment also includes STK Meat Market, an e-commerce platform that offers signature steak cuts nationwide, the Company’s major off-site events group, which supports all brands and venue concepts, and revenue generated from gift card programs.

The Company’s Chief Executive Officer, who is the Company’s Chief Operating Decision Maker, manages the business and allocates resources via a combination of restaurant sales reports and operating segment profit information, defined as revenues less operating expenses, related to the Company’s four operating segments.

Certain financial information relating to the three and nine months ended September 30, 2021 and 2020 for each segment is provided below (in thousands). Prior year amounts have been revised to conform to the current year segment presentation.

	STK	Kona Grill	ONE Hospitality	Corporate	Total
For the three months ended September 30, 2021					
Total revenues	\$ 40,018	\$ 31,177	\$ 578	\$ 96	\$ 71,869
Operating income (loss)	\$ 9,996	\$ 2,258	\$ 369	\$ (7,565)	\$ 5,058
Capital asset additions	\$ 1,890	\$ 665	\$ 29	\$ 155	\$ 2,739
For the nine months ended September 30, 2021					
Total revenues	\$ 102,495	\$ 89,001	\$ 991	\$ 624	\$ 193,111
Operating income (loss)	\$ 26,403	\$ 9,124	\$ 185	\$ (22,041)	\$ 13,671
Capital asset additions	\$ 5,115	\$ 1,570	\$ 102	\$ 1,325	\$ 8,112
As of September 30, 2021					
Total assets	\$ 90,973	\$ 89,253	\$ 6,362	\$ 30,527	\$ 217,115
	STK	Kona Grill	ONE Hospitality	Corporate	Total
For the three months ended September 30, 2020					
Total revenues	\$ 16,475	\$ 22,794	\$ 169	\$ 129	\$ 39,567
Operating income (loss)	\$ 2,639	\$ 2,215	\$ 65	\$ (4,899)	\$ 20
Capital asset additions	\$ 528	\$ 398	\$ 7	\$ 46	\$ 979
For the nine months ended September 30, 2020					
Total revenues	\$ 39,740	\$ 55,831	\$ 1,105	\$ 274	\$ 96,950
Operating income (loss)	\$ 3,404	\$ 1,816	\$ 136	\$ (14,970)	\$ (9,614)
Capital asset additions	\$ 1,056	\$ 1,141	\$ 184	\$ 279	\$ 2,660
As of December 31, 2020					
Total assets	\$ 81,431	\$ 96,262	\$ 5,484	\$ 32,392	\$ 215,569

Note 14 – Geographic Information

Certain financial information by geographic location is provided below (in thousands).

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
Domestic revenues	\$ 70,192	\$ 38,745	\$ 190,390	\$ 95,304
International revenues	1,677	822	2,721	1,646
Total revenues	\$ 71,869	\$ 39,567	\$ 193,111	\$ 96,950

	September 30, 2021	December 31, 2020
Domestic long-lived assets	\$ 184,351	\$ 180,935
International long-lived assets	1,076	258
Total long-lived assets	<u>\$ 185,427</u>	<u>\$ 181,193</u>

Note 15 – Commitments and Contingencies

The Company is party to claims in lawsuits incidental to its business, including lease disputes and employee-related matters. While the resolution of a lawsuit, proceeding or claim may have an impact on the Company's financial results for the period in which it is resolved, in the opinion of management, the ultimate outcome of such matters and judgements in which the Company is currently involved, either individually or in the aggregate, will not have a material adverse effect on the Company's consolidated financial position or results of operations.

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

This Quarterly Report on Form 10-Q and certain information incorporated herein by reference contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and Section 27A of the Securities Act of 1933, as amended (the “Securities Act”). Forward-looking statements speak only as of the date thereof and involve risks and uncertainties that may cause our actual results, performance or achievements to be materially different from the results, performance or achievements expressed or implied by the forward-looking statements. These risk and uncertainties include the risk factors discussed under Item 1A. “Risk Factors” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2020. A number of factors could cause actual results or outcomes to differ materially from those indicated by such forward-looking statements, including but not limited to: (1) the effects of the COVID-19 pandemic on our business, including government restrictions on our ability to operate our restaurants and changes in customer behavior; and our ability to re-hire employees; (2) our ability to open new restaurants and food and beverage locations in current and additional markets, grow and manage growth profitably, maintain relationships with suppliers and obtain adequate supply of products and retain our key employees; (3) factors beyond our control that affect the number and timing of new restaurant openings, including weather conditions and factors under the control of landlords, contractors and regulatory and/or licensing authorities; (4) our ability to successfully improve performance and cost, realize the benefits of our marketing efforts and achieve improved results as we focus on developing new management and license deals; (5) changes in applicable laws or regulations; (6) the possibility that The ONE Group may be adversely affected by other economic, business, and/or competitive factors; and (7) other risks and uncertainties. We have attempted to identify forward-looking statements by terminology including “anticipates,” “believes,” “can,” “continue,” “ongoing,” “could,” “estimates,” “expects,” “intends,” “may,” “appears,” “suggests,” “future,” “likely,” “goal,” “plans,” “potential,” “projects,” “predicts,” “should,” “targets,” “would,” “will” and similar expressions that convey the uncertainty of future events or outcomes. You should not place undue reliance on any forward-looking statement. We do not undertake any obligation to update or revise any forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events, except as required under applicable law.

General

This information should be read in conjunction with the condensed consolidated financial statements and the notes included in Item 1 of Part I of this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes, and Management’s Discussion and Analysis of Financial Condition and Results of Operations, contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

As used in this report, the terms “Company,” “we,” “our,” or “us,” refer to The ONE Group Hospitality, Inc. and its consolidated subsidiaries, taken as a whole, unless the context otherwise indicates.

Business Summary

We are a global hospitality company that develops, owns and operates, manages and licenses upscale and polished casual, high-energy restaurants and lounges and provides turn-key food and beverage (“F&B”) services for hospitality venues including hotels, casinos and other high-end locations. Turn-key F&B services are food and beverage services that can be scaled, customized and implemented by us for the client at a particular hospitality venue. Our vision is to be a global market leader in the hospitality industry by melding high-quality service, ambiance, high-energy and cuisine into one great experience that we refer to as “Vibe Dining”. We design all our restaurants, lounges and F&B services to create a social dining and high-energy entertainment experience within a destination location. We believe that this design and operating philosophy separates us from more traditional restaurant and foodservice competitors.

Our primary restaurant brands are STK, a multi-unit steakhouse concept that combines a high-energy, social atmosphere with the quality and service of a traditional upscale steakhouse, and Kona Grill, a polished casual bar-centric grill concept featuring American favorites, award-winning sushi, and specialty cocktails in a polished casual atmosphere. Our F&B hospitality management services include developing, managing and operating restaurants, bars, rooftop lounges, pools, banqueting and catering facilities, private dining rooms, room service and mini bars tailored to the specific needs of high-end hotels and casinos. Our F&B hospitality clients operate global hospitality brands such as the W Hotel, Hippodrome Casino, Curio and ME Hotels.

We opened our first restaurant in January 2004 in New York, New York, and, as of September 30, 2021, we owned, operated, managed or licensed 60 venues including 23 STKs and 24 Kona Grills in major metropolitan cities in North America, Europe and the Middle East and 13 F&B venues operated under ONE Hospitality in six hotels and casinos throughout the United States and Europe. In January 2021, we opened a managed STK restaurant in Scottsdale, Arizona. In the second quarter of 2021, we opened a managed STK restaurant in the Westminster area of London, United Kingdom and a licensed STK restaurant within the Los Cabos International

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Airport in San Jose del Cabo, Mexico which represents the brand’s debut at an airport. In May 2021, we also opened Bao Yum, a new brand under ONE Hospitality, and commenced management of certain F&B hospitality management services at the Westminster Curio Hotel in London, United Kingdom. In July 2021, we opened an owned STK restaurant in Bellevue, Washington. In August 2021, we entered into a management agreement with Rivershore Bar & Grill in Oregon City, Oregon. For those restaurants and venues that are managed or licensed, we generate management fee revenue based on top-line revenues and incentive fee revenue based on a percentage of the location’s revenues and net profits.

The table below reflects our venues by restaurant brand and geographic location as of September 30, 2021:

	Venues			Total
	STK ⁽¹⁾	Kona Grill	ONE Hospitality ⁽²⁾	
Domestic				
Owned	11	24	2	37
Managed	2	—	1	3
Licensed	1	—	—	1
Total domestic	14	24	3	41
International				
Owned	—	—	—	—
Managed	4	—	10	14
Licensed	5	—	—	5
Total international	9	—	10	19
Total venues	23	24	13	60

(1) Locations with an STK and STK Rooftop are considered one venue location. This includes the STK Rooftop in San Diego, CA, which is a licensed location.

(2) Includes concepts under the Company’s F&B hospitality management agreements and other venue brands such as ANGEL, Bao Yum, Heliot, Hideout, Marconi, Radio and Rivershore.

Our Growth Strategies and Outlook

Our growth model is primarily driven by the following:

- Expansion of Our STK and Kona Grill Restaurants
- Expansion through New F&B Hospitality Projects
- Increase Same Store Sales and Increase Operating Efficiency
- Acquisitions

We intend to open thirteen new STK and F&B venues in 2021 and 2022, of which seven are currently open, and three to five Kona Grill locations in 2022. There are currently two Company-owned STK restaurant (San Francisco, CA and Dallas, TX), one Company-owned Kona Grill restaurant (Riverton, UT) and one managed STK restaurant (Stratford, UK) under development. As our footprint increases, we expect to benefit by leveraging system-wide operating efficiencies and best practices through the management of our general and administrative expenses as a percentage of overall revenue.

COVID-19

The COVID-19 pandemic has significantly impacted our business. Beginning in mid-March 2020, we experienced a significant reduction in guest traffic due to government mandated restrictions resulting in the temporary closure of several restaurants and the shift in operations to provide only take-out and delivery service. Starting in May 2020, state and local governments began easing restrictions on stay-at-home orders; however, certain states reimposed restrictions as COVID-19 cases increased during the fall of 2020. In February 2021, many jurisdictions began easing restrictions again and we experienced strong sales momentum coming out of the pandemic. Currently, all domestic restaurants are open for in-person dining. We have taken significant steps to adapt our business to increase sales while providing a safe environment for guests and employees.

Given the ongoing uncertainty surrounding the COVID-19 pandemic, we cannot reasonably predict if the sales and profitability levels coming out of the pandemic will continue for the remainder of 2021. It is possible that an increase in cases could result in restrictions on in-restaurant dining operations that could materially and negatively affect our results of operations. Our continuation of normal dining operations is subject to events beyond its control, including the effectiveness of governmental efforts to halt the spread of COVID-19.

Executive Summary

Total revenue increased \$32.3 million, or 81.6% to \$71.9 million for the three months ended September 30, 2021 compared to \$39.6 million for the three months ended September 30, 2020 primarily due to strong sales momentum as state and local governments eased seating capacity restrictions in the markets in which we operate coupled with strong execution of our sales initiatives. Same-store sales increased 78.9% in the third quarter of 2021 compared to the third quarter of 2020 as seating capacity restrictions limited in-person restaurant dining in the prior year period. On a two-year basis, same store sales for the third quarter of 2021 increased 44.7% compared to the third quarter of 2019. STK same store sales increased 63.8% on a two-year basis while Kona Grill same store sales increased 26.9%.

Restaurant operating profit increased \$5.3 million, or 84.7% to \$11.6 million for the three months ended September 30, 2021 compared to \$6.3 million for the three months ended September 30, 2020. Restaurant operating profit as a percentage of owned restaurant net revenue was 17.1% in the third quarter of 2021 compared to 16.6% in the third quarter of 2020.

Operating income increased \$5.0 million to \$5.0 million for the three months ended September 30, 2021 compared to operating income of less than \$0.1 million for the three months ended September 30, 2020. The increase was primarily driven by strong sales aided by increased seating capacity in our restaurants as state and local governments eased seating capacity restrictions.

Total revenues increased \$96.1 million, or 99.2% to \$193.1 million for the nine months ended September 30, 2021 compared to \$97.0 million for the nine months ended September 30, 2020. Restaurant operating profit increased \$27.6 million to \$36.2 million for the nine months ended September 30, 2021 compared to restaurant operating profit of \$8.5 million for the nine months ended September 30, 2020. For the nine months ended September 30, 2021, we generated operating income of \$13.7 million compared to an operating loss of \$9.6 million for the nine months ended September 30, 2020.

Results of Operations

The following table sets forth certain statements of operations data for the periods indicated (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
Revenues:				
Owned restaurant net revenue	\$ 67,966	\$ 37,822	\$ 184,982	\$ 92,908
Management, license and incentive fee revenue	3,903	1,745	8,129	4,042
Total revenues	71,869	39,567	193,111	96,950
Cost and expenses:				
Owned operating expenses:				
Owned restaurant cost of sales	17,733	9,091	46,925	23,378
Owned restaurant operating expenses	38,640	22,454	101,882	60,991
Total owned operating expenses	56,373	31,545	148,807	84,369
General and administrative (including stock-based compensation of \$653, \$496, \$2,812, and \$1,316 for the three and nine months ended September 30, 2021 and 2020, respectively)	5,959	3,400	17,272	9,235
Depreciation and amortization	2,572	2,655	7,766	7,605
COVID-19 related expenses	1,131	1,716	3,776	3,759
Agreement restructuring expenses	—	—	494	—
Pre-opening expenses	587	45	842	45
Lease termination expenses	58	185	352	453
Transaction costs	131	—	131	1,109
Other income, net	—	1	—	(11)
Total costs and expenses	66,811	39,547	179,440	106,564
Operating income (loss)	5,058	20	13,671	(9,614)
Other (income) expenses, net:				
Interest expense, net of interest income	781	1,280	3,262	3,650
Loss on early debt extinguishment	600	—	600	—
Gain on CARES Act Loan forgiveness	(9,968)	—	(18,529)	—
Total other (income) expenses, net	(8,587)	1,280	(14,667)	3,650
Income (loss) before provision (benefit) for income taxes	13,645	(1,260)	28,338	(13,264)
Provision (benefit) for income taxes	1,544	(350)	2,188	(4,231)
Net income (loss)	12,101	(910)	26,150	(9,033)
Less: net income (loss) attributable to noncontrolling interest	430	(35)	573	(687)
Net income (loss) attributable to The One Group Hospitality, Inc.	\$ 11,671	\$ (875)	\$ 25,577	\$ (8,346)

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The following table sets forth certain statements of operations data as a percentage of total revenues for the periods indicated. Certain percentage amounts may not sum to total due to rounding.

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
Revenues:				
Owned restaurant net revenue	94.6 %	95.6 %	95.8 %	95.8 %
Management, license and incentive fee revenue	5.4 %	4.4 %	4.2 %	4.2 %
Total revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost and expenses:				
Owned operating expenses:				
Owned restaurant cost of sales ⁽¹⁾	26.1 %	24.0 %	25.4 %	25.2 %
Owned restaurant operating expenses ⁽¹⁾	56.9 %	59.4 %	55.1 %	65.6 %
Total owned operating expenses ⁽¹⁾	82.9 %	83.4 %	80.4 %	90.8 %
General and administrative (including stock-based compensation of 0.9% and 1.3% and 1.5% and 1.4% for the three and nine months ended September 30, 2021 and 2020, respectively)	8.3 %	8.6 %	8.9 %	9.5 %
Depreciation and amortization	3.6 %	6.7 %	4.0 %	7.8 %
COVID-19 related expenses	1.6 %	4.3 %	2.0 %	3.9 %
Agreement restructuring expenses	—%	—%	0.3 %	—%
Pre-opening expenses	0.8 %	0.1 %	0.4 %	—%
Lease termination expenses	0.1 %	0.5 %	0.2 %	0.5 %
Transaction costs	0.2 %	—%	0.1 %	1.1 %
Other income, net	—%	—%	—%	—%
Total costs and expenses	93.0 %	99.9 %	92.9 %	109.9 %
Operating income (loss)	7.0 %	0.1 %	7.1 %	(9.9)%
Other (income) expenses, net:				
Interest expense, net of interest income	1.1 %	3.2 %	1.7 %	3.8 %
Loss on early debt extinguishment	0.8 %	—%	0.3 %	—%
Gain on CARES Act Loan forgiveness	(13.9)%	—%	(9.6)%	—%
Total other (income) expenses, net	(12.0)%	3.2 %	(7.6)%	3.8 %
Income (loss) before provision (benefit) for income taxes	19.0 %	(3.2)%	14.7 %	(13.7)%
Provision (benefit) for income taxes	2.1 %	(0.9)%	1.1 %	(4.4)%
Net income (loss)	16.8 %	(2.3)%	13.5 %	(9.3)%
Less: net income (loss) attributable to noncontrolling interest	0.6 %	(0.1)%	0.3 %	(0.7)%
Net income (loss) attributable to The One Group Hospitality, Inc.	16.2 %	(2.2)%	13.2 %	(8.6)%

(1) These expenses are being shown as a percentage of owned restaurant net revenue.

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The following tables show our operating results by segment for the periods indicated (in thousands). Prior year amounts have been revised to conform to the current year segment presentation.

	STK	Kona Grill	ONE Hospitality	Corporate	Total
For the three months ended September 30, 2021					
Total revenues	\$ 40,018	\$ 31,177	\$ 578	\$ 96	\$ 71,869
Operating income (loss)	\$ 9,996	\$ 2,258	\$ 369	\$ (7,565)	\$ 5,058
Capital asset additions	\$ 1,890	\$ 665	\$ 29	\$ 155	\$ 2,739
For the nine months ended September 30, 2021					
Total revenues	\$ 102,495	\$ 89,001	\$ 991	\$ 624	\$ 193,111
Operating income (loss)	\$ 26,403	\$ 9,124	\$ 185	\$ (22,041)	\$ 13,671
Capital asset additions	\$ 5,115	\$ 1,570	\$ 102	\$ 1,325	\$ 8,112
As of September 30, 2021					
Total assets	\$ 90,973	\$ 89,253	\$ 6,362	\$ 30,527	\$ 217,115
	STK	Kona Grill	ONE Hospitality	Corporate	Total
For the three months ended September 30, 2020					
Total revenues	\$ 16,475	\$ 22,794	\$ 169	\$ 129	\$ 39,567
Operating income (loss)	\$ 2,639	\$ 2,215	\$ 65	\$ (4,899)	\$ 20
Capital asset additions	\$ 528	\$ 398	\$ 7	\$ 46	\$ 979
For the nine months ended September 30, 2020					
Total revenues	\$ 39,740	\$ 55,831	\$ 1,105	\$ 274	\$ 96,950
Operating income (loss)	\$ 3,404	\$ 1,816	\$ 136	\$ (14,970)	\$ (9,614)
Capital asset additions	\$ 1,056	\$ 1,141	\$ 184	\$ 279	\$ 2,660
As of December 31, 2020					
Total assets	\$ 81,431	\$ 96,262	\$ 5,484	\$ 32,392	\$ 215,569

EBITDA, Adjusted EBITDA and Restaurant operating profit are presented in this Quarterly Report on Form 10-Q to supplement other measures of financial performance. EBITDA, Adjusted EBITDA and Restaurant operating profit are not required by, or presented in accordance with, accounting principles generally accepted in the United States of America (“GAAP”). 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, non-cash rent expense, pre-opening expenses, lease termination expenses, stock-based compensation, COVID-19 related expenses and non-recurring gains and losses. Not all of the items defining Adjusted EBITDA occur in each reporting period but have been included in our definitions of these terms based on our historical activity. We define Restaurant operating profit as owned restaurant net revenue minus owned restaurant cost of sales and owned restaurant operating expenses.

We believe that EBITDA, Adjusted EBITDA and Restaurant operating profit are appropriate measures of our operating performance because they eliminate non-cash or non-recurring expenses that do not reflect our underlying business performance. We believe Restaurant operating profit is an important component of financial results because: (i) it is a widely used metric within the restaurant industry to evaluate restaurant-level productivity, efficiency, and performance, and (ii) we use Restaurant operating profit as a key metric to evaluate our restaurant financial performance compared to our competitors. We use these metrics to facilitate a comparison of our operating performance on a consistent basis from period to period, to analyze the factors and trends affecting our business and to evaluate the performance of our restaurants. Adjusted EBITDA has limitations as an analytical tool and our calculation of Adjusted EBITDA 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 a key measure used by management. Additionally, Adjusted EBITDA and Restaurant operating profit are frequently used by analysts, investors and other interested parties to evaluate companies in our industry. We use Adjusted EBITDA and Restaurant operating profit, alongside other GAAP measures such as net income, to measure profitability, as a key profitability target in our budgets, and to compare our performance against that of peer companies despite possible differences in calculation.

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The following table presents a reconciliation of net (loss) income to EBITDA and Adjusted EBITDA for the periods indicated (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
Net income (loss) attributable to The One Group Hospitality, Inc.	\$ 11,671	\$ (875)	\$ 25,577	\$ (8,346)
Net income (loss) attributable to noncontrolling interest	430	(35)	573	(687)
Net income (loss)	12,101	(910)	26,150	(9,033)
Interest expense, net of interest income	781	1,280	3,262	3,650
Provision (benefit) for income taxes	1,544	(350)	2,188	(4,231)
Depreciation and amortization	2,572	2,655	7,766	7,605
EBITDA	16,998	2,675	39,366	(2,009)
COVID-19 related expenses	1,131	1,716	3,776	3,759
Agreement restructuring expenses	—	—	494	—
Transaction costs ⁽¹⁾	131	—	131	1,109
Stock-based compensation	653	496	2,812	1,316
Lease termination expense ⁽²⁾	58	185	352	453
Non-cash rent expense ⁽³⁾	(16)	58	(19)	268
Pre-opening expenses	587	45	842	45
Gain on CARES Act Loan forgiveness	(9,968)	—	(18,529)	—
Loss on early debt extinguishment	600	—	600	—
Adjusted EBITDA	10,174	5,175	29,825	4,941
Adjusted EBITDA attributable to noncontrolling interest	126	511	407	(475)
Adjusted EBITDA attributable to The ONE Group Hospitality, Inc.	\$ 10,048	\$ 4,664	\$ 29,418	\$ 5,416

(1) Primarily transaction and integration costs incurred with the Kona Grill acquisition and subsequent integration activities and professional fees associated with the amended Credit Agreement.

(2) Lease termination expense are costs associated with closed, abandoned and disputed locations or leases.

(3) Non-cash rent expense is included in owned restaurant operating expenses and general and administrative expense on the consolidated statements of operations and comprehensive income (loss).

The following table presents a reconciliation of Operating income (loss) to Restaurant operating profit for the periods indicated (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
Operating income (loss) as reported	\$ 5,058	\$ 20	\$ 13,671	\$ (9,614)
Management, license and incentive fee revenue	(3,903)	(1,745)	(8,129)	(4,042)
General and administrative	5,959	3,400	17,272	9,235
Depreciation and amortization	2,572	2,655	7,766	7,605
COVID-19 related expenses	1,131	1,716	3,776	3,759
Agreement restructuring expenses	—	—	494	—
Pre-opening expenses	587	45	842	45
Lease termination expense	58	185	352	453
Transaction costs	131	—	131	1,109
Other income, net	—	1	—	(11)
Restaurant operating profit	\$ 11,593	\$ 6,277	\$ 36,175	\$ 8,539
Restaurant operating profit as a percentage of owned restaurant net revenue	17.1%	16.6%	19.6%	9.2%

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Restaurant operating profit by brand is as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
STK restaurant operating profit (Company owned)	8,309	2,767	23,458	3,682
STK restaurant operating profit (Company owned) as a percentage of STK revenue (Company owned)	22.6%	18.6%	24.6%	10.2%
Kona Grill restaurant operating profit	3,422	3,546	12,693	5,469
Kona Grill restaurant operating profit as a percentage of Kona Grill revenue	11.0%	15.6%	14.3%	9.8%

Results of Operations for the Three Months Ended September 30, 2021 and 2020

Revenues

Owned restaurant net revenue. Owned restaurant net revenue increased \$30.1 million, or 79.7%, to \$68.0 million for the three months ended September 30, 2021 from \$37.8 million for the three months ended September 30, 2020. The increase was primarily attributable to strong sales momentum as state and local governments continued to ease seating capacity restrictions in the markets in which we operate coupled with strong execution of our sales initiatives. Comparable restaurant sales increased 78.9% in the third quarter of 2021.

Management and license fee revenue. Management and license fee revenues increased \$2.2 million, or 123.7% to \$3.9 million for the three months ended September 30, 2021 from \$1.7 million for the three months ended September 30, 2020. The increase was primarily attributable to local governments lifting stay at home orders and easing seating capacity restrictions in the markets in which we operate as well as revenue generated from the opening of two managed STKs, one licensed STK and three managed F&B venues during 2021.

Cost and Expenses

Owned restaurant cost of sales. Food and beverage costs for owned restaurants increased \$8.6 million, or 95.1%, to \$17.7 million for the three months ended September 30, 2021 from \$9.1 million for the three months ended September 30, 2020. The increase was due to the incremental sales increases. As a percentage of owned restaurant net revenue, cost of sales increased 210 basis points from 24.0% in the three months ended September 30, 2020 to 26.1% for the three months ended September 30, 2021 primarily due to increased commodity prices.

Owned restaurant operating expenses. Owned restaurant operating expenses increased \$16.2 million to \$38.6 million for the three months ended September 30, 2021 from \$22.5 million for the three months ended September 30, 2020. Owned restaurant operating costs as a percentage of owned restaurant net revenue decreased 250 basis points from 59.4% in the three months ended September 30, 2020 to 56.9% for the three months ended September 30, 2021 due to leverage on higher average weekly sales, actively managing operating costs and the impact of COVID-19 in the third quarter of 2020.

General and administrative. General and administrative costs increased \$2.6 million, or 75.2%, to \$6.0 million for the three months ended September 30, 2021 from \$3.4 million for the three months ended September 30, 2020. The increase was attributable to increased activity as our restaurants are generating strong average weekly sales compared to cost savings measures taken in the prior year period as a result of COVID-19, including the furlough of employees and reduction of third-party professional fees. The increase in general and administrative costs is also due to accruals for incentive compensation and a \$0.2 million increase in stock-based compensation driven by an increase in our stock price during 2021.

Depreciation and amortization. Depreciation and amortization expense decreased \$0.1 million to \$2.6 million for the three months ended September 30, 2021 from \$2.7 million for the three months ended September 30, 2020.

Pre-opening expenses. In the three months ended September 30, 2021, we incurred \$0.6 million of pre-opening expenses related to the STK Bellevue restaurant that opened in July 2021 as well as preopen rent for an STK restaurant in Dallas, Texas that is currently under construction.

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COVID-19 related expenses. COVID-19 related expenses were \$1.1 million for the three months ended September 30, 2021 compared to \$1.7 million in the prior year period. COVID-19 related expenses are composed primarily of sanitation, supplies and safety precautions taken to prevent the spread of COVID-19.

Interest expense, net of interest income. Interest expense, net of interest income was \$0.8 million and \$1.3 million for each of the three months ended September 30, 2021 and 2020, respectively.

Loss on early debt extinguishment. During August 2021, we entered into the Third Amendment to the Credit Agreement and made a \$22.2 million prepayment on the term loan and recognized a loss on early debt extinguishment of \$0.6 million for the three months ended September 30, 2021.

Provision (benefit) for income taxes. The provision for income taxes for the three months ended September 30, 2021 was \$1.5 million compared to a tax benefit of \$0.4 million for the three months ended September 30, 2020. Our 2021 annualized effective tax rate is estimated at 11.0% for 2021.

Net income (loss) attributable to noncontrolling interest. Net income attributable to noncontrolling interest was \$0.4 million for the three months ended September 30, 2021 compared to net loss of less than \$0.1 million for the three months ended September 30, 2020.

Results of Operations for the Nine Months Ended September 30, 2021 and 2020

Revenues

Owned restaurant net revenue. Owned restaurant net revenue increased \$92.1 million, or 99.1%, to \$185.0 million for the nine months ended September 30, 2021 from \$92.9 million for the nine months ended September 30, 2020. The increase was primarily attributable to strong sales as state and local governments eased seating capacity restrictions in the markets in which we operate. Comparable restaurant sales increased 97.5% in the first nine months of 2021.

Management and license fee revenue. Management and license fee revenues increased \$4.1 million, or 101.1% to \$8.1 million for the nine months ended September 30, 2021 from \$4.0 million for the nine months ended September 30, 2020. The increase was primarily attributable to local governments lifting stay at home orders and easing seating capacity restrictions in the markets in which we operate as well as revenues generated from the opening of two managed STKs, one new licensed STK and three managed F&B venues during the nine months ended September 30, 2021.

Cost and Expenses

Owned restaurant cost of sales. Food and beverage costs for owned restaurants increased \$23.5 million, or 100.7%, to \$46.9 million for the nine months ended September 30, 2021 from \$23.4 million for the nine months ended September 30, 2020. The increase was due to incremental sales increases. As a percentage of owned restaurant net revenue, cost of sales remained relatively flat at 25.2% for the nine months ended September 30, 2020 to 25.4% for the nine months ended September 30, 2021.

Owned restaurant operating expenses. Owned restaurant operating expenses increased \$40.9 million, or 67.0% to \$101.9 million for the nine months ended September 30, 2021 from \$61.0 million for the nine months ended September 30, 2020. Owned restaurant operating costs as a percentage of owned restaurant net revenue decreased 1,050 basis points to 55.1% for the nine months ended September 30, 2021 from 65.6% for the nine months ended September 30, 2020

General and administrative. General and administrative costs increased \$8.0 million to \$17.3 million for the nine months ended September 30, 2021 from \$9.2 million for the nine months ended September 30, 2020. The increase was attributable to increased activity as restaurants resumed in-person dining compared to the prior year period when cost savings measures were implemented as a result of COVID-19 and accruals for incentive compensation. Higher stock-based compensation of \$1.5 million also contributed to the increase in general and administrative expenses driven by certain grants that vested based on stock price thresholds during the first quarter as well and employer payroll taxes on stock option exercises and restricted stock vesting.

Depreciation and amortization. Depreciation and amortization expense increased \$0.2 million to \$7.8 million for the nine months ended September 30, 2021 from \$7.6 million for the nine months ended September 30, 2020.

Pre-opening expenses. Pre-opening expenses increased \$0.8 million to \$0.8 million for the nine months ended September 30, 2021 from less than \$0.1 million for the nine months ended September 30, 2020. Pre-opening expenses were primarily related to the

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STK Bellevue restaurant which opened in July 2021 as well as preopen rent for an STK restaurant in Dallas, Texas that is currently under construction.

COVID-19 related expenses. COVID-19 related expenses were \$3.8 million for the nine months ended September 30, 2021 and September 30, 2020, respectively. COVID-19 related expenses are composed primarily of sanitation, supplies and safety precautions taken to prevent the spread of COVID-19.

Agreement restructuring expenses. Agreement restructuring expense for the nine months ended September 30, 2021 was \$0.5 million related to the restructuring of four agreements with our management and license partners. We do not expect to incur additional agreement restructuring expenses going forward.

Interest expense, net of interest income. Interest expense, net of interest income was \$3.3 million for the nine months ended September 30, 2021 compared to \$3.7 million for the prior year period.

Loss on early debt extinguishment. During August 2021, we entered into the Third Amendment to the Credit Agreement and made a \$22.2 million prepayment on the term loan and recognized a loss on early debt extinguishment of \$0.6 million for the nine months ended September 30, 2021.

Provision (benefit) for income taxes. The provision for income taxes for the nine months ended September 30, 2021 was \$2.2 million compared to a tax benefit of \$4.2 million for the nine months ended September 30, 2020. Our 2021 annualized effective tax rate is estimated at 11.0% for 2021. For the nine months ended September 30, 2021, the provision for income taxes included discrete period tax benefits resulting from the vesting of restricted stock units and the exercise of stock options.

Net income (loss) attributable to noncontrolling interest. Net income attributable to noncontrolling interest was \$0.6 million for the nine months ended September 30, 2021 compared to net loss of \$0.7 million for the nine months ended September 30, 2020.

Liquidity and Capital Resources

Executive Summary

Our principal liquidity requirements are to meet our lease obligations, working capital and capital expenditure needs and to pay principal and interest on outstanding debt. 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 months, including the costs of opening currently planned new restaurants, through cash provided by operations and construction allowances provided by landlords of certain locations. We believe the combination of the aforementioned items are adequate to support our immediate business operations and plans. At September 30, 2021, we had cash and cash equivalents of \$19.1 million. We had \$23.2 million in long-term debt, which consisted of borrowings under our Credit Agreement. As of September 30, 2021, the availability on our revolving credit facility was \$10.7 million, subject to the restrictions described in Note 5 to the condensed consolidated financial statements.

In the nine months ended September 30, 2021, capital expenditures were \$8.1 million primarily for the construction of STK Bellevue which opened in July 2021, the construction of STK restaurants in Dallas, Texas, and San Francisco, California and a Kona Grill restaurant in Riverton, Utah as well as technology initiatives, and capital expenditures for existing restaurants. Our future cash requirements will depend on many factors, including the pace of expansion, conditions in the retail property development market, construction costs, the nature of the specific sites selected for new restaurants, and the nature of the specific leases and associated tenant improvement allowances available, if any, as negotiated with landlords. Additionally, under our current capital light expansion strategy, we plan to enter into management and license agreements for the operation of future STK restaurants where we are not required to contribute significant capital upfront.

Our operations have not required significant working capital, and, like many restaurant companies, we may have negative working capital during the year. Revenues are received primarily in credit card or cash receipts, and restaurant operations do not require significant receivables or inventories, other than our wine inventory. In addition, we receive trade credit for the purchase of food, beverages and supplies, thereby reducing the need for incremental working capital to support growth.

In the event the Company needs to temporarily suspend all operations due to COVID-19 restrictions, the ongoing operating costs per month are expected to be as follows:

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Minimum rent	\$	1,200
Insurance payments		200
Interest payments		400
Minimum general & administrative costs		500
Total	\$	<u>2,300</u>

Credit Agreement

On October 4, 2019, in conjunction with the acquisition of Kona Grill, we entered into the Credit Agreement with Goldman Sachs Bank USA that 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.

On August 6, 2021, the Company entered into the Third Amendment to the Credit Agreement with Goldman Sachs Bank USA. The amended agreement provides for additional flexibility and extends the maturity date for both the term loan and revolving credit facility by five years to August 2026. The amendment provides for a secured revolving credit facility of \$12.0 million and a \$25.0 million term loan which was reduced from \$48.0 million. The term loan is payable in quarterly installments, with the final payment due in August 2026.

A summary of other changes to the amended Credit Agreement include:

- Removes all financial covenants except a maximum net leverage ratio of 2.00 to 1.00;
- Removes restrictions on the maximum amount of capital expenditures;
- Removes restrictions on the maximum number of Company-owned new locations; and
- Removes restrictions on credit extensions with regards to the revolving credit facility

The amended Credit Agreement has several borrowing and interest rate options, including the following: (a) a LIBOR rate (or a comparable successor rate) subject to a 1.00% floor from 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) 4.00%. Loans under the amended Credit Agreement bear interest at a rate per annum using the applicable indices plus an interest rate margin of 5.00% from a variable interest rate margin of 5.75 to 6.75% (for LIBOR rate loans) and 4.00% from 4.75% to 5.75% (for base rate loans).

As of September 30, 2021, we were compliant with the covenants required by the amended Credit Agreement. Based on current projections, we believe that we would continue to comply with the covenants in the Credit Agreement, as amended, throughout the twelve months following the issuance of the financial statements.

Refer to Note 5 and Note 15 to our condensed consolidated financial statements set forth in Item 1 of this Quarterly Report on Form 10-Q for further information regarding the terms of our long-term debt arrangements and information regarding our commitments and contingencies.

CARES Act Loans

On May 4, 2020, two subsidiaries of the Company obtained CARES Act Loans from BBVA USA under the Paycheck Protection Program (“PPP”) created by the CARES Act. Repayment of the CARES Act Loans was guaranteed by the SBA. The ONE Group, LLC received a loan of \$9.8 million related to the operations of STK restaurants, and Kona Grill Acquisition, LLC received a loan of \$8.5 million related to the operation of Kona Grill restaurants.

The CARES Act Loans were eligible for forgiveness if the proceeds were used for qualified purposes within a specified period and if at least 60% was spent on payroll costs. The Company used all of the proceeds from the CARES Act Loans for qualified purposes in accordance with the CARES Act and SBA regulations, and these funds supported the re-opening of in person dining and the return of approximately 3,000 furloughed employees to work.

The Company applied for forgiveness of the CARES Act Loans in February 2021. In June 2021, the Company was notified that the SBA had forgiven the CARES Act Loan for Kona Grill Acquisition, LLC in its entirety. Subsequently, in July 2021, the Company was notified that the SBA had forgiven the CARES Act Loan for The ONE Group, LLC in its entirety. As a result, the Company

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recognized \$10.0 million and \$18.5 million gain on CARES Act Loan forgiveness for the three and nine months ended September 30, 2021.

Capital Expenditures and Lease Arrangements

To the extent we open new Company-owned restaurants, we anticipate capital expenditures would increase related to the construction of new restaurants compared to general capital expenditures of existing restaurants. Although we are committed to our capital light strategy, in which our capital investment is expected to be limited, we are willing to consider opening owned restaurants as opportunities arise. For owned restaurants, where we build from a shell state, we have typically targeted an average cash investment of approximately \$3.8 million for a 10,000 square-foot STK restaurant and anticipate approximately \$2.5 million for an 8,000 square-foot Kona Grill restaurant, net of landlord contributions and equipment financing and excluding pre-opening costs. For locations where we may be the successor restaurant tenant, and currently our preference, total cash investment will be significantly less and in the \$1.0 million to \$1.5 million range. Typical pre-opening costs will be in the \$0.3 million to \$0.5 million range. In addition, some of our existing restaurants will require capital improvements to either maintain or improve the facilities. We may add seating or provide enclosures for outdoor space in the next twelve months for some of our locations, which we expect will increase revenues for those locations.

Our F&B hospitality venues typically require limited capital investment from us. Capital expenditures for these projects will primarily be funded by cash flows from operations depending upon the timing of these expenditures and cash availability.

We typically seek to lease our restaurant locations for periods of 10 to 20 years under operating lease arrangements, with a limited number of renewal options. Our rent structure varies, but our leases generally provide for the payment of both minimum and contingent rent based on sales, as well as other expenses related to the leases such as our pro-rata share of common area maintenance, real estate 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.

Cash Flows

The following table summarizes the statement of cash flows for the nine months ended September 30, 2021, and 2020 (in thousands):

	For the nine months ended September 30,	
	2021	2020
Net cash provided by (used in):		
Operating activities	\$ 23,030	\$ (675)
Investing activities	(8,112)	(2,660)
Financing activities	(20,188)	17,607
Effect of exchange rate changes on cash	(37)	(51)
Net increase (decrease) in cash and cash equivalents	\$ (5,307)	\$ 14,221

Operating Activities. Net cash provided by operating activities was \$23.0 million for the nine months ended September 30, 2021, compared to net cash used in operating activities of \$0.7 million for the nine months ended September 30, 2020. The increase was primarily attributable to net income generated for the nine months ended September 30, 2021, as state and local jurisdictions eased COVID-19 related restrictions compared to a net loss for the same period prior year as a result of COVID-19 restrictions. The increase is also attributed to an increase in accounts payable and accrued expenses due to higher restaurant sales volumes.

Investing Activities. Net cash used in investing activities for the nine months ended September 30, 2021 was \$8.1 million primarily for the construction of STK restaurants in Bellevue, Washington, Dallas, Texas, San Francisco, California, and a Kona Grill restaurant in Riverton, Utah, as well as technology initiatives, and capital expenditures for existing restaurants compared to \$2.7 million for the nine months ended September 30, 2020 as most capital expenditures were deferred due to COVID-19.

Financing Activities. Net cash used in financing activities for the nine months ended September 30, 2021 was \$20.2 million compared to net cash provided by financing activities of \$17.6 million in the nine months ended September 30, 2020. The change was primarily related to the \$22.2 million principal payment on the amended Credit Agreement.

Recent Accounting Pronouncements

See Note 1 to our condensed consolidated financial statements set forth in Item 1 of this Quarterly Report on Form 10-Q for a detailed description of recent accounting pronouncements. We do not expect the recent accounting pronouncements discussed in Note 1 to have a significant impact on our consolidated financial position or results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As a “smaller reporting company,” as defined in Item 10 of Regulation S-K, we are not required to provide this information.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, carried out an evaluation as of the last day of the period covered by this Quarterly Report on Form 10-Q of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (“Exchange Act”). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures (a) are effective to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is timely recorded, processed, summarized and reported and (b) include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

There were no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, that occurred during the third quarter of 2021 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.

We are subject to claims common to our industry and in the ordinary course of our business. Companies in our industry, including us, have been and are subject to class action lawsuits, primarily regarding compliance with labor laws and regulations. Defending lawsuits requires significant management attention and financial resources and the outcome of any litigation is inherently uncertain. We believe that accrual and disclosure for these matters are adequately provided for in our consolidated financial statements. We do not believe the ultimate resolutions of these matters will have a material adverse effect on our consolidated financial position and results of operations. However, the resolution of lawsuits is difficult to predict. A significant increase in the number of these claims, or one or more successful claims under which we incur greater liabilities than is currently anticipated, could materially and adversely affect our consolidated financial statements.

Item 1A. Risk Factors.

There have been no material changes to the risk factors contained in Item 1A of our Form 10-K for the year ended December 31, 2020.

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

None

Item 6. Exhibits.

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

<u>Exhibit</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation (Incorporated by reference to Form 8-K filed on September 5, 2014).
3.2	Amended and Restated Bylaws (Incorporated by reference to Form 8-K filed on October 25, 2011).
10.1†	Amended and Restated Employment Agreement dated September 24, 2021 between Emanuel N. Hilario and the Company (Incorporated by reference to Form 8-K filed on September 28, 2021).
10.2†	Notice of Grant of Restricted Stock Units dated September 24, 2021 between Emanuel N. Hilario and the Company (Incorporated by reference to Form 8-K filed on September 28, 2021).
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes – Oxley Act of 2002, 18 U.S.C. Section 1350.
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes – Oxley Act of 2002, 18 U.S.C. Section 1350.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

† Management contract or compensatory plan or arrangement.

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: November 4, 2021

THE ONE GROUP HOSPITALITY, INC.

By: /s/ Tyler Loy
Tyler Loy, Chief Financial Officer

CERTIFICATIONS UNDER SECTION 302

I, Emanuel Hilario, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The ONE Group Hospitality, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2021

/s/ Emanuel Hilario

Emanuel Hilario
Title: Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS UNDER SECTION 302

I, Tyler Loy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The ONE Group Hospitality, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2021

/s/ Tyler Loy

Tyler Loy

Title: Chief Financial Officer
(Principal Financial Officer)

CERTIFICATIONS UNDER SECTION 906

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of The ONE Group Hospitality, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report for the three months ended September 30, 2021 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 4, 2021

/s/ Emanuel Hilario

Emanuel Hilario

Title: Chief Executive Officer

(Principal Executive Officer)

CERTIFICATIONS UNDER SECTION 906

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of The ONE Group Hospitality, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report for the three months ended September 30, 2021 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 4, 2021

/s/ Tyler Loy

Tyler Loy

Title: Chief Financial Officer

(Principal Financial Officer)
