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

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

Date of Report (Date of earliest event reported): May 1, 2024

THE ONE GROUP HOSPITALITY, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

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

Emerging growth company ☐

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

Item 2.01 Completion of Acquisition or Disposition of Assets.

On May 1, 2024, The ONE Group Hospitality, Inc. (the "Company") filed a current report on Form 8-K reporting the completion of its acquisition of 100% of the issued and outstanding equity interests of Safflower Holdings Corp. from Safflower Holdings LLC, for $365.0 million in cash, subject to customary adjustments for pre-closing estimates for indebtedness, cash, net working capital and seller transaction expenses. Safflower Holdings Corp. beneficially owns most of the Benihana restaurants, as well as all of the RA Sushi restaurants, in the United States (collectively "Benihana"). It also franchises Benihana locations in the U.S., Latin America (excluding Mexico) and the Caribbean. This amendment amends the original filing to include the financial statements of Benihana required by Item 9.01(a) and pro forma financial statements of Benihana and the Company required by Item 9.01(b).

Item 9.01 Financial Statements and Exhibits

(a) Financial statements of business acquired.

(i) The audited financial statements of Benihana as of and for the fiscal years ended March 31, 2024 and March 26, 2023 are filed as Exhibit 99.1 and incorporated into this Item 9.01(a).

(b) Pro forma financial information.

The unaudited pro forma condensed combined balance sheet as of March 31, 2024 and the unaudited pro forma condensed combined statements of operations and comprehensive income for the three months ended March 31, 2024 and for the year ended December 31, 2023 are filed as Exhibit 99.2 and incorporated into this Item 9.01(b).

(d) Exhibits.

23.1	Consent of CohnReznick, LLP (Independent Auditors)
99.1	Audited financial statements of Benihana as of and for the fiscal years ended March 31, 2024 and March 26, 2023
99.2	Unaudited pro forma condensed combined balance sheet as of March 31, 2024 and the unaudited pro forma condensed combined statements of operations and comprehensive income for the three months ended March 31, 2024 and for the year ended December 31, 2023
104	104 Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

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

Dated: July 17, 2024

THE ONE GROUP HOSPITALITY, INC.

By: /s/ Tyler Loy
Name: Tyler Loy
Title: Chief Financial Officer

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-280027 and No. 333-260947 and Form S-8 No. 333-265861 and No. 333-232231) of Benihana Inc. and Subsidiaries of our audit report dated June 27, 2024, with respect to the consolidated financial statements of Benihana Inc. and Subsidiaries for the fiscal years ended March 31, 2024 and March 26, 2023 included in this Form 8-K/A.

CohnReznick LLP

Melville, New York
July 17, 2024

Exhibit 99.1

Benihana Inc. and Subsidiaries

Consolidated Financial Statements as of
and for the Fiscal Years Ended
March 31, 2024, and March 26, 2023, and
Independent Auditor's Report

BENIHANA INC. AND SUBSIDIARIES

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CohnReznick LLP
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Independent Auditor's Report

To the Board of Directors
Benihana Inc.

Opinion

We have audited the consolidated financial statements of Benihana Inc. and Subsidiaries (a Delaware corporation), which comprise the consolidated balance sheets as of March 31, 2024, and March 26, 2023, and the related consolidated statements of comprehensive income, statements of stockholders' equity (deficiency), and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Benihana Inc. and Subsidiaries as of March 31, 2024, and March 26, 2023, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Benihana Inc., and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Benihana Inc.'s ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Benihana Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Benihana Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

CohnReznick LLP

Melville, New York
June 27, 2024

BENIHANA INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2024, AND MARCH 26, 2023
(In thousands)

	March 31, 2024	March 26, 2023
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 27,177	$ 33,303
Cash and cash equivalents—restricted	499	499
Receivables—net	4,061	3,865
Inventories	5,749	5,540
Prepaid expenses and other current assets	5,567	3,223
Investment securities, available for sale—restricted	35	28
Total current assets	43,088	46,458
PROPERTY AND EQUIPMENT—Net	102,375	97,354
RIGHT-OF-USE ASSET—Net	192,209	198,263
GOODWILL	50,804	50,804
INTANGIBLE ASSETS—Net	79,366	79,551
DEFERRED INCOME TAX ASSET—Net	47,195	—
OTHER ASSETS—Net	1,276	1,338
TOTAL	$ 516,313	$ 473,768
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
CURRENT LIABILITIES:		
Accounts payable	$ 8,672	$ 9,025
Accrued expenses	38,861	41,560
Current portion of operating lease liabilities	23,784	20,830
Total current liabilities	71,317	71,415
LONG-TERM DEBT—Net of deferred financing costs	214,410	212,521
OPERATING LEASE LIABILITIES	197,337	197,522
DEFERRED INCOME TAX LIABILITIES—Net	—	12,886
FINANCE LEASE OBLIGATION	850	799
OTHER LONG-TERM LIABILITIES	4,937	4,709
Total liabilities	488,851	499,852
COMMITMENTS AND CONTINGENCIES (Notes 11 and 14)		
STOCKHOLDERS' EQUITY (DEFICIENCY):		
Common stock—$0.01 par value; authorized—1,000 shares; issued and outstanding—1,000 shares at March 31, 2024, and March 26, 2023, respectively	—	—
Additional paid-in capital	140,297	140,264
Accumulated deficit	(112,835)	(166,348)
Total stockholders' equity (deficiency)	27,462	(26,084)
TOTAL	$ 516,313	$ 473,768

See accompanying notes to the consolidated financial statements.

BENIHANA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FISCAL YEARS ENDED MARCH 31, 2024, AND MARCH 26, 2023
(In thousands)

	March 31, 2024	March 26, 2023
REVENUE:		
Restaurant sales	$ 527,445	$ 513,715
Franchise fees and royalties	2,591	2,400
Other revenue	104	1,002
Total revenue	530,140	517,117
COST AND EXPENSES:		
Cost of food and beverage sales	104,370	111,194
Restaurant operating expenses	346,149	332,375
General and administrative expenses	37,170	36,923
Restaurant opening expenses	2,519	1,179
Impairment charges	8,946	—
Total cost and expenses	499,154	481,671
INCOME FROM OPERATIONS	30,986	35,446
INTEREST EXPENSE—Net	35,370	29,497
(LOSS) INCOME BEFORE INCOME TAXES	(4,384)	5,949
INCOME TAX (BENEFIT) PROVISION	(57,897)	3,627
NET INCOME	53,513	2,322
COMPREHENSIVE INCOME	$ 53,513	$ 2,322

See accompanying notes to the consolidated financial statements.

BENIHANA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIENCY)
FOR THE FISCAL YEARS ENDED MARCH 31, 2024, AND MARCH 26, 2023
(In thousands)

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Gain (Loss) - Net of Tax	Total Stockholders' Equity (Deficiency)
BALANCE—March 27, 2022	$ —	$ 140,209	$ (168,670)	$ —	$ (28,461)
Net income	—	—	2,322	—	2,322
Stock-based compensation	—	55	—	—	55
BALANCE—March 26, 2023	—	140,264	(166,348)	—	(26,084)
Net income	—	—	53,513	—	53,513
Stock-based compensation	—	33	—	—	33
BALANCE—March 31, 2024	$ —	$ 140,297	$ (112,835)	$ —	$ 27,462

See accompanying notes to the consolidated financial statements.

BENIHANA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED MARCH 31, 2024, AND MARCH 26, 2023
(In thousands)

	March 31, 2024	March 26, 2023
OPERATING ACTIVITIES:		
Net income	$ 53,513	$ 2,322
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,147	16,561
Amortization of deferred debt issuance costs	1,891	1,854
Accretion of finance lease obligation	136	129
Gift card breakage income	(104)	(1,002)
Loss on disposal of property and equipment	554	1,066
(Gain) loss on available for sale securities	(7)	22
Noncash impairment charges	8,946	—
Deferred income taxes	(60,081)	2,360
Stock-based compensation	33	55
Noncash operating lease costs	1,784	(1,102)
Change in operating assets and liabilities that provided (used) cash:		
Receivables	(664)	862
Inventories	(209)	(254)
Prepaid expenses and other current assets	(2,517)	(575)
Income tax receivable	(186)	468
Other assets	48	147
Accounts payable	(767)	(1,592)
Accrued expenses and other liabilities	(652)	3,479
Net cash provided by operating activities	18,865	24,800
INVESTING ACTIVITIES:		
Expenditures for property and equipment	(24,962)	(21,112)
Expenditures for new software	(57)	(34)
Proceeds from sale of liquor licenses	115	—
Purchase of liquor licenses	—	(183)
Net cash used in investing activities	(24,904)	(21,329)
FINANCING ACTIVITIES:		
Borrowings on line of credit	—	14,690
Repayments on line of credit	—	(14,690)
Debt issuance costs	(2)	—
Payments of finance lease obligation	(85)	(78)
Net cash used in financing activities	(87)	(78)
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS, CASH-RESTRICTED, AND CASH EQUIVALENTS RESTRICTED	(6,126)	3,393
CASH, CASH EQUIVALENTS, CASH-RESTRICTED, AND CASH EQUIVALENTS RESTRICTED—Beginning of year	33,802	30,409
CASH, CASH EQUIVALENTS, CASH-RESTRICTED, AND CASH EQUIVALENTS RESTRICTED—End of year (Note 1)	$ 27,676	$ 33,802
SUPPLEMENTAL CASH FLOW INFORMATION—Cash paid during the fiscal year for: Interest	$ 33,507	$ 26,250
Income taxes	$ 2,021	$ 798
NONCASH OPERATING ACTIVITIES:		
Tenant allowance receivable	$ 1,240	$ 1,590
NONCASH FINANCING AND INVESTING ACTIVITIES:		
Acquired property and equipment for which cash payments had not yet been made	$ 2,148	$ 3,261

See accompanying notes to the consolidated financial statements.

BENIHANA INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED MARCH 31, 2024, AND MARCH 26, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations—As of March 31, 2024, Benihana Inc., including its wholly-owned subsidiaries ("Benihana," the "Company," "we," "our" or "us"), owned and operated 69 Benihana teppanyaki restaurants and 19 RA Sushi restaurants. We also had 12 franchised Benihana teppanyaki restaurants as of March 31, 2024. In fiscal year 2019, we launched the sale of certain consumer packaged goods.

Benihana National Corp., our subsidiary, owns the right to operate, license and develop restaurants and products using the Benihana name and trademarks in the United States, Central and South America and the Caribbean islands. We also own the United States trademarks and worldwide development rights to the names "Haru" and "RA" and related trademarks.

Basis of Presentation—The consolidated financial statements include the assets, liabilities and results of operations of the Company. All intercompany accounts and transactions have been eliminated in consolidation.

Fiscal Year—We have a 53-/52-week fiscal year. Our fiscal year ends on the Sunday within the dates of March 26 through April 1. Fiscal year 2024 consisted of 53 weeks, and fiscal year 2023 consisted of 52 weeks.

Use of Estimates—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period.

Actual amounts could differ from those estimates.

Cash and Cash Equivalents—We consider all highly liquid investment instruments purchased with an initial maturity of three months or less to be cash equivalents. Amounts receivable from third-party credit card processors of $8.7 million and $8.3 million as of March 31, 2024, and March 26, 2023, respectively, are also considered cash equivalents because they are both short-term and highly liquid in nature and are typically converted to cash within three days of the sales transaction. The Company maintains its cash with high-credit quality financial institutions. At times, such amounts may exceed federally insured limits. At March 31, 2024, funds not insured approximated $16.1 million.

Cash and Cash Equivalents, Restricted—Certain cash amounts included in our consolidated cash and cash equivalents are in accounts that are restricted to funding payment of health benefits as required by the San Francisco Healthcare Ordinance and vacation and health benefits. The liabilities associated with such benefits are also included in our accompanying consolidated balance sheets within accrued expenses.

The following table provides a reconciliation of the components of cash and cash equivalents and cash and cash equivalents– restricted reported in our accompanying consolidated balance sheets to the total of the amount presented in our accompanying consolidated statements of cash flows:

	March 31, 2024	March 26, 2023
Cash and cash equivalents	$ 27,177	$ 33,303
Cash and cash equivalents—restricted	499	499
Total cash and cash equivalents and cash and cash equivalents - restricted presented in our accompanying consolidated statements of cash flows	$ 27,676	$ 33,802

Inventories—Inventories, which consist principally of restaurant operating supplies and food and beverage, are stated at the lower of cost (first-in, first-out method) or net realizable value.

Investment Securities, Available for Sale—We maintain investments in certain publicly traded mutual funds that invest in equity securities. We invest in these mutual funds to mirror and track the performance of the elections made by employees that participate in our deferred compensation plan.

These investments are held in trust in accordance with the deferred compensation plan and are restricted for payment of plan expenses and benefits to the participants. These mutual fund investments are classified as available for sale and are carried at fair value with unrealized gains and losses reflected in interest expense, net, on the consolidated statements of comprehensive income for 2024 and 2023. These investments have no stated maturities.

Fair Value Hierarchy—Fair value is determined for assets and liabilities, which are grouped according to hierarchy, based on significant levels of observable or unobservable inputs. These two types of inputs have created the following fair value hierarchy:

Level 1—Quoted prices for identical instruments in active markets.

Level 2—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3—Valuations derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

Accounting for Long-Lived Assets—Property and equipment are stated at cost. We capitalize all direct costs incurred to construct restaurants. Upon opening, these costs are depreciated and charged to expense based upon their useful life classification. Rent expense incurred during the construction period is not capitalized but is charged to restaurant opening costs. We capitalized $488,000 of interest expense during fiscal year 2024. We capitalized $510,000 of interest expense during fiscal year 2023.

We periodically assess the potential impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We consider a history of consistent and significant negative comparable restaurant sales and declining operating profit or operating losses to be primary indicators of potential asset impairment. Assets are grouped and evaluated for impairment at the lowest level for which there is identifiable cash flow, primarily at the individual restaurant level. When indicators of potential impairment are present, the carrying values of the assets are evaluated in relation to the operating performance and estimated future undiscounted cash flows of the underlying restaurant. If a forecast of undiscounted future operating cash flows directly related to the restaurant is less than the carrying amount of the restaurant's long-lived assets, the carrying amount is compared to fair value. An impairment loss is measured as the amount by which the carrying amount of the restaurant's long-lived assets exceeds their fair value, and the charge is taken against results of operations. Fair value is an estimate based on a net present value model, which discounts projected free cash flows at a computed weighted-average cost of capital as the discount rate (Level 3 in the three-tier fair value hierarchy). The projected

free cash flows used in calculating estimated fair value involve a significant amount of judgment and include our best estimates of expected future comparable sales and operating performance for each restaurant.

As further discussed in Note 10, Impairment Charges, we recorded $1.6 million of impairment charges during fiscal year 2024 related to the write-down of property and equipment to estimated fair value at certain of our restaurants. We did not record any impairment charges during fiscal year 2023.

Accounting for Goodwill and Intangibles—Goodwill consists of the cost of an acquired business in excess of the fair value of net assets acquired, using the purchase method of accounting. Goodwill and other intangible assets deemed to have indefinite lives are not amortized and are subject to annual impairment tests. Intangible assets deemed to have finite lives are amortized over their estimated useful lives.

We review goodwill and other indefinite-lived intangible assets annually for impairment or more frequently if indicators of impairment exist. The evaluation consists of a comparison of each reporting unit's fair value to its carrying value. If the carrying value of the reporting unit is greater than its fair value, an impairment charge is recorded in the amount of the difference, not to exceed the carrying value of the reporting unit's goodwill.

Our indefinite-lived intangible assets consist of trademarks and premiums on liquor licenses. The costs of purchasing transferable liquor licenses through open markets in jurisdictions with a limited number of authorized liquor licenses are capitalized as indefinite-lived intangible assets and included in intangible assets in the accompanying consolidated balance sheets. We review both trademarks and premiums on liquor licenses for impairment annually or more frequently if impairment indicators exist. For fiscal years 2024 and 2023, we performed our assessment for possible impairment during the third quarter and concluded there was no impairment.

Our finite-lived intangible assets are primarily comprised of franchise agreements and are included in intangible assets-net in the accompanying consolidated balance sheets. Amortization is computed using the straight-line method over the estimated lives of the assets: franchise agreements—13 years.

Amortization of intangibles totaled $256,000 during fiscal year 2024 and $314,000 during fiscal year 2023.

Deferred Financing Costs—Deferred financing costs are included as an offset to debt in long-term debt, net, in the accompanying consolidated balance sheets and are amortized over the remaining term of the underlying debt to interest expense on a straight-line basis, which does not materially differ from the effective interest rate method.

Self-Insurance—We are self-insured for certain losses, principally related to health, workers' compensation and general liability exposure, and we maintain stop-loss coverage with third-party insurers to limit our total exposure. The self-insurance liability represents an estimate of the ultimate cost of claims incurred and unpaid, both reported and unreported, as of the consolidated balance sheet date. We utilize estimates of expected losses, based on statistical and actuarial analyses, to determine our self-insurance liability.

Stockholders' Equity (Deficiency)—As a result of a merger transaction in August 2012 (the "Merger"), the Company is a wholly-owned subsidiary of Safflower Holdings Corp. (the "Parent"), a Delaware corporation, which is primarily owned by funds advised by the Private Equity Group of Angelo, Gordon & Co. ("Angelo Gordon"). During fiscal year 2021, Angelo Gordon and other co- investors contributed an additional $30 million of equity. Our amended Certificate of Incorporation authorized 1,000 shares of common stock with a par value of $0.01 per share. All 1,000 shares were issued to the Parent.

Revenue Recognition—We do not rely on any major guests as a source of revenue. We recognize revenue when we satisfy a performance obligation by transferring control over a product or service to our guests. Restaurant sales, as presented in the consolidated statements of comprehensive income, represent food, beverage and other products sold. Restaurant sales are presented net of discounts, coupons, employee meals, and complimentary meals. We recognize revenue from restaurant sales when payment is tendered at the point of sale, as our performance obligation to provide food, beverage and other products is satisfied. Sales taxes collected from guests and remitted

to governmental authorities are presented on a net basis within restaurant sales in the accompanying consolidated statements of comprehensive income.

As a franchisor, we collect initial franchise fees, which are deferred and recognized over the term of the franchise agreement. Revenue related to franchise fees is not material for fiscal years 2024 or 2023. Continuing royalties, which are based upon a percentage of each franchised restaurant's gross revenues or distribution of our consumer packaged goods to retailers, are recognized as income when earned. Royalty revenues attributed to foreign countries totaled approximately $263,000 and $223,000 for fiscal years 2024 and 2023, respectively.

We sell gift cards to guests in our restaurants and through our websites and third-party retail outlets. Proceeds from the sale of gift cards are deferred until the revenue recognition criteria have been met, generally upon redemption. We recognize breakage revenue for unredeemed gift cards in proportion to actual gift card redemptions based on historical breakage rates. Breakage revenue of $104,000 and $1.0 million was recognized in fiscal years 2024 and 2023, respectively, and is included in other revenue in the consolidated statements of comprehensive income. Unredeemed gift cards for fiscal years 2024, 2023, and 2022 were $4.1 million, $3.5 million and $4.0 million, respectively.

Catering revenue is generated through contracts with guests whereby the guests agree to pay a contract rate for a future service. Our contract performance obligations are fulfilled at the time the catering services are provided to the guests. Amounts received in advance of catering services are deferred and recorded as unearned income. We recognized catering service revenue of $1.1 million and $1.2 million in fiscal years 2024 and 2023, respectively. Unearned income related to catering services was immaterial for both fiscal years 2024 and 2023.

Accounting for Leases—We generally operate our restaurants in leased premises. We are obligated under various lease agreements for certain restaurant facilities and our corporate office, which are classified as operating leases. The typical restaurant premises lease is for a term of between 10 and 25 years with renewal options ranging from five to 20 years. The leases generally provide for the obligation to pay property taxes, utilities and various other use and occupancy costs. We are also obligated under two leases for office space.

We evaluate our leases at the commencement of the lease to determine the classification as an operating or finance lease. Upon adoption of Accounting Standards Codification 2016-02 (as amended), Leases ("ASC 842"), we recognized operating and finance lease liabilities based on the present value of minimum lease payments over the remaining expected lease term and corresponding right-of-use assets. We recognize lease expense related to operating leases on a straight-line basis. Amortization expense and interest expense related to finance leases are included in depreciation and amortization and interest expense, net, respectively, in our consolidated statements of comprehensive income.

As further discussed in Note 10, Impairment Charges, we recorded $7.4 million of impairment charges during fiscal year 2024 related to the write-down of right-of-use assets to estimated fair value at certain of our restaurants. We did not record any impairment charges during fiscal year 2023.

We cannot determine the interest rate implicit in our leases. Therefore, the discount rate represents our incremental borrowing rate and is determined based on risk-free rates. We use rates on US government securities for periods comparable with lease terms as risk-free rates.

Under the provisions of certain of our leases, there are rent holidays and/or escalations in payments over the base lease term, percentage rent, as well as options for renewal for additional periods. The effects of the rent holidays and escalations have been reflected in rent expense on a straight-line basis over the expected lease term, which includes option periods we are reasonably assured to exercise due to the fact that we would incur an economic penalty for not doing so. Generally, the lease term commences on the date when we become legally obligated for the rent payments or as specified in the lease agreement. Recognition of rent expense begins when we have the right to control the use of the leased property, which is typically before rent payments are due under the terms of most of our leases. Percentage rent expense is generally based upon sales levels and is accrued at the point in time we determine that it is probable that the sales levels will be achieved. Leasehold improvements are amortized on the straight- line

method over the shorter of the estimated life of the asset or the same expected lease term used for lease accounting purposes. Prior to the adoption of ASC 842, leasehold improvements paid for by the lessor were recorded as leasehold improvements and deferred rent.

In some cases, a location we lease may require construction to ready the space for its intended use where we have involvement with the construction of leased assets. The construction period begins when we take possession of the building or land from the property owner and continues until the space is substantially complete and ready for its intended use. Consideration of the nature and extent of involvement during the construction period may require that we be considered the accounting owner of the construction project. In these build-to-suit leases, we capitalize the construction costs, including the value of costs incurred up to the date we executed the lease and costs incurred during the remainder of the construction period, as such costs are incurred. Additionally, we recognized a financing obligation for construction costs incurred. Once construction is complete, we are required to perform a sale- leaseback analysis to determine if we can remove the assets and associated financing obligations from the consolidated balance sheets. In one location, we maintain various forms of "continuing involvement" in the property; therefore, we continue to recognize the asset and associated financing obligations following construction completion. We will continue to account for the asset as if we are the legal owner, and the financing lease obligation, similar to other debt, until the lease expires or is modified.

Refer to Note 11, Leases, for further information.

Depreciation and Amortization—Depreciation and amortization are computed using the straight-line method over the estimated useful life (buildings—30 years; restaurant furniture, fixtures and equipment—eight years; office equipment—eight years; personal computers, software and related equipment—three years; and leasehold improvements—lesser of the expected lease term used for lease accounting purposes or their useful lives). Depreciation expense associated with property and equipment totaled $16.7 million and $16.2 million during fiscal years 2024 and 2023, respectively.

Restaurant Opening Costs—Restaurant opening costs include costs to recruit and train hourly restaurant employees, wages, travel and lodging costs for our opening training team and other support employees, costs for practice service activities and straight-line minimum base rent during the restaurant preopening period. We expense restaurant opening costs as incurred. We incurred $2.5 million and $1.2 million of restaurant opening costs during fiscal years 2024 and 2023, respectively.

Advertising—Advertising costs are expensed as incurred. Production costs for television commercials are deferred and expensed at the time of first airing of the commercial. Advertising costs were $7.5 million and $6.5 million during fiscal years 2024 and 2023, respectively, and are included in restaurant operating expenses in the accompanying consolidated statements of comprehensive income.

Stock-Based Compensation—Non-cash compensation costs related to equity-based payments to employees, including grants of employee and director profits interest units (“Units”), are recognized in general and administrative expenses in the accompanying consolidated statements of comprehensive income based on their grant date fair values. Compensation cost is recognized over the period that an employee provides service for that award, resulting in charges to earnings.

Our equity-based compensation structure includes service vesting and performance vesting Units. We use the Black-Scholes option pricing model in measuring fair value, which requires the input of subjective assumptions. We recognize compensation expense relating to the service vesting Units ratably over the requisite service period for the entire award. The performance vesting Units vest by achieving certain performance conditions. We record compensation expense for performance vesting Units when we deem the achievement of the performance goals to be probable. Our equity-based compensation structure is described more fully in Note 12, Stock-Based Compensation.

Income Taxes—We provide for federal and state income taxes currently payable as well as for those deferred because of temporary differences between reporting income and expenses for financial statement purposes versus tax purposes. We use the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. Recognition of deferred tax assets is limited to amounts considered by us to be more likely than not of realization in future periods.

A tax benefit claimed or expected to be claimed on a tax return is recorded from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement with the taxing authority.

Recently Adopted Accounting Standards—In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. Effective March 27, 2023, the Company implemented ASU 2016-13. The implementation did not have a material impact on the Company's consolidated financial statements.

2. INVENTORIES

Inventories as of March 31, 2024, and March 26, 2023, consist of the following (in thousands):

	March 31, 2024	March 26, 2023
Food and beverage	$ 4,100	$ 3,963
Supplies	1,649	1,577
Inventories	$ 5,749	$ 5,540

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

As of March 31, 2024, and March 26, 2023, we had certain publicly traded mutual funds that invest in equity securities, included in investment securities, available for sale - restricted in our accompanying consolidated balance sheets, which are required to be measured at fair value on a recurring basis. We invest in these mutual funds to mirror and track the performance of the elections made by employees that participate in our deferred compensation plan. These mutual fund investments are classified as available for sale and are carried at fair value with unrealized gains and losses reflected in interest expense, net, on the consolidated statements of comprehensive income in 2024 and 2023. We determined the fair value of our investment securities available for sale using quoted market prices (Level 1 in the three-tier fair value hierarchy).

The following tables disclose (in thousands), as of March 31, 2024, and March 26, 2023, our available for sale investment securities at both the cost basis and fair value by investment type. There were no significant available for sale investment securities at a net unrealized loss position as of March 31, 2024, and March 26, 2023.

	March 31, 2024		March 26, 2023	
	Cost	Fair Value	Cost	Fair Value
Equity securities, available for sale, restricted	$ 35	$ 35	$ 28	$ 28

Fair value measurements of nonfinancial assets and nonfinancial liabilities are primarily used in the valuation of our reporting units for the purpose of assessing goodwill and other indefinite-lived intangible asset impairment and the valuation of property and equipment when assessing long-lived asset impairment. None of our nonfinancial assets or nonfinancial liabilities were measured at fair value or impaired as of March 31, 2024, or March 26, 2023, except as discussed below.

The following table discloses (in thousands) the impairment charges recorded during the year ended March 31, 2024 by asset type, the fair value of the asset, and the level used to determine the fair value in the three-tier fair value hierarchy. Refer to Note 1, Summary of Significant Accounting Policies, and Note 10, Impairment Charges, for the reasons for the measurements, description of the inputs, and information used to develop the inputs.

Asset	Impairment Charge	Fair Value	Hierarchy Level
March 31, 2024:			
Property and equipment,certain locations	$ 1,559	$ 673	Level 3—unobservable inputs
Right-of-use asset, certain locations	7,387	1,353	Level 3—unobservable inputs

4. PROPERTY AND EQUIPMENT

Property and equipment, net, as of March 31, 2024, and March 26, 2023, consist of the following (in thousands):

	March 31, 2024	March 26, 2023
Leasehold improvements	$ 198,856	$ 183,325
Building	159	159
Restaurant furniture, fixtures and equipment	56,805	50,248
	255,820	233,732
Less accumulated depreciation and amortization	158,790	143,420
	97,030	90,312
Construction in progress	5,345	7,042
Property and equipment, net	$ 102,375	$ 97,354

We disposed of $1.9 million and $4.6 million of assets (and related accumulated depreciation of $1.3 million and $3.5 million) during fiscal years 2024 and 2023, respectively, primarily in connection with restaurant renovations and closures. We recorded $1.6 million of impairments during fiscal year 2024, which is included in impairment charges in the consolidated statements of comprehensive income. We did not have any impairments in fiscal year 2023.

5. INTANGIBLE ASSETS

Intangible assets, net, as of March 31, 2024, and March 26, 2023, consist of the following (in thousands):

	March 31, 2024	March 26, 2023
Trademarks	$ 77,460	$ 77,460
Franchise agreements, net of accumulated amortization of $2,144 and $1,960 in 2024 and 2023, respectively	255	440
Premium on liquor licenses	1,651	1,651
Intangible assets, net	$ 79,366	$ 79,551

Estimated amortization expense over the estimated remaining life of finite-lived intangible assets as of March 31, 2024, is as follows (in thousands):

Fiscal years:		
2025	$	219
2026		95
2027		9
2028		—
2029		—
Thereafter		—
Total	$	323

The weighted-average remaining estimated useful life is 1.5 years.

6. OTHER ASSETS

Other assets, net, as of March 31, 2024, and March 26, 2023, consist of the following (in thousands):

	March 31, 2024		March 26, 2023	
Security deposits	$	716	$	698
Other, net of accumulated amortization of $4,310 and $4,255 in 2024 and 2023, respectively		560		640
Other assets, net	$	1,276	$	1,338

7. ACCRUED EXPENSES

Accrued expenses as of March 31, 2024, and March 26, 2023, consist of the following (in thousands):

	March 31, 2024		March 26, 2023	
Accrued interest	$	8,219	$	7,367
Accrued payroll, incentive compensation and related taxes		6,578		11,714
Unredeemed gift cards		4,139		3,470
Sales taxes payable		3,365		2,798
Accrued percentage rent		2,127		2,287
Accrued workers' compensation claims		1,770		1,608
Accrued capital expenditures		1,319		2,846
Accrued general liability claims		990		1,018
Income taxes payable		233		97
Other accrued liabilities		10,121		8,355
Accrued expenses	$	38,861	$	41,560

8. LONG-TERM DEBT

Senior Secured Credit Facility—In June 2018, we entered into a $200 million senior secured credit facility (the "Senior Facility") with certain lenders (the "Lenders"). The Senior Facility is secured by a first priority perfected security interest in substantially all present and future assets of the Company and a guarantee by the Parent and all domestic subsidiaries of the Company. The proceeds from the Senior Facility were utilized to pay down the terminated senior secured credit facility.

The Senior Facility consists of credit in an aggregate principal amount equal to $180 million and a $20 million revolving loan facility. The term loan and the revolving loan facility bear interest at a floating rate tied to the Secured Overnight Financing Rate ("SOFR"), previously London InterBank Offered Rate ("LIBOR"), or an index rate, based upon our election, with interest payments due on the earlier of the term requested upon the initial draw

request or 90 days. The term loan had an interest rate margin of 9.91% with an option, which we elected, to pay in kind ("PIK") interest up to 3.60% of the per annum interest due and payable on the term loans. The PIK interest is capitalized and added to the principal balance of the obligations on such date. There are no required amortization payments, and the Senior Facility matures on June 28, 2026, as amended. As the entire outstanding term loan balance is long-term, the balance is shown as long-term debt in the accompanying consolidated balance sheets.

On May 31, 2019, we entered into Amendment No. 1 to the Senior Facility (the "Amended Senior Facility") to change the PIK option from 3.6% to 2.6% and increase the maximum allowable maintenance capital expenditure.

On April 2, 2020, we entered into Amendment No. 2 to the Amended Senior Facility, which permitted us to PIK the entire April 1, 2020 interest payment. It also waived certain financial covenants for the same period.

On June 9, 2020, we entered into Amendment No. 3 to the Amended Senior Facility, which permitted us to PIK the entire interest payment each quarter through January 1, 2021. It also waived certain financial covenants through September 2022. In exchange, our interest rate margin was increased.

On May 18, 2021, we entered into Amendment No. 4 to the Amended Senior Facility to revise the limits on our maximum allowable maintenance capital expenditure.

On February 9, 2023, we entered into Amendment No. 5 to the Amended Senior Facility to revise the limits on our maximum allowable maintenance capital expenditure. It also changed the benchmark rate from LIBOR to SOFR.

On June 21, 2023, we entered into Amendment No. 6 to the Amended Senior Facility to extend the maturity of the Senior Facility to June 28, 2026.

We have incurred $11.0 million in deferred financing costs related to the issuance of these facilities. Deferred financing costs, net of accumulated amortization, of $0.5 million and $2.3 million are included as a reduction to long-term debt in the accompanying consolidated balance sheets as of March 31, 2024, and March 26, 2023, respectively. Amortization of $1.9 million for each of fiscal years 2024 and 2023 is included in interest expense in the accompanying consolidated statements of comprehensive income.

At March 31, 2024, we did not have an outstanding balance under the revolving loan facility. We had $215 million outstanding under the term loan, with $33.5 million of the balance attributed to our PIK interest election. Our PIK interest rate at March 31, 2024 was 2.60%. Our borrowing capacity under the revolving loan facility is reduced on a dollar-for-dollar basis by the cumulative amount of any outstanding letters of credit, which totaled $4.5 million at March 31, 2024, resulting in $15.5 million available borrowing capacity. As of March 31, 2024, and March 26, 2023, we were in compliance with the financial and nonfinancial covenants of the Amended Senior Facility.

In May 2024, the debt was paid off in conjunction with the transaction (Note 16).

Interest Expense—Interest expense for fiscal years 2024 and 2023 consisted of the following (in thousands):

	March 31, 2024	March 26, 2023
Senior Facility term loan	$ 33,553	$ 27,172
Amortization of deferred financing costs	1,891	1,854
Senior Facility revolving loan	117	140
Letter of credit fees and other	448	408
Interest income	(639)	(77)
Interest expense, net	$ 35,370	$ 29,497

9. RESTAURANT OPERATING EXPENSES

Restaurant operating expenses are those costs that are directly attributed to the operation of individual restaurant locations and, for fiscal years 2024 and 2023, consist of the following (in thousands):

	March 31, 2024	March 26, 2023
Labor and related costs	$ 186,310	$ 181,455
Occupancy costs	35,737	34,366
Depreciation and amortization	17,102	16,859
Advertising and promotional costs[1]	15,424	13,920
Utilities and telephone	13,277	12,598
Restaurant supplies	11,141	11,957
Credit card discounts	10,776	10,050
Third-party delivery fees	8,435	9,152
Other restaurant operating expenses	47,947	42,018
Total restaurant operating expenses	$ 346,149	$ 332,375

(1) Advertising and promotional costs consist of advertising costs (see Note 1, Summary of Significant Accounting Policies) and various promotional costs, the most significant of which are the allocations from cost of sales of the estimated food and beverage cost related to the redemption of the gift certificates issued to "The Chef's Table", "The Hook-Up", and "Access" program participants.

10. IMPAIRMENT CHARGES

We periodically assess the potential impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. As a result of underperformance of certain restaurants and its resulting impact on our expectation of future cash flows, we determined that a change in circumstances had occurred and the carrying value of certain of our property and equipment and right of use assets may not be recoverable. During fiscal year 2024, the results of our analysis indicated that the property and equipment and right of use assets were impaired at the certain locations, resulting in an impairment charge of $8.9 million to write down the restaurants' property and equipment and right of use asset to estimated fair value, which is classified as impairment charges in the accompanying consolidated statements of comprehensive loss.

There were no impairment charges recorded during fiscal year 2023.

11. LEASES

The components of lease expense for fiscal years 2024 and 2023 are as follows:

	March 31, 2024	March 26, 2023
Operating lease expense	$ 27,362	$ 25,410
Variable lease expense	6,022	6,847
Total	$ 33,384	$ 32,257

The components of lease assets and liabilities as of March 31, 2024, and March 26, 2023 are as follows:

	Balance Sheet Classification	March 31, 2024	March 26, 2023
Operating lease right-of-use assets	Right-of-use assets	$ 192,209	$ 198,263
Total lease assets, net		$ 192,209	$ 198,263
Operating lease liabilities - current		$ 23,784	$ 20,830
Operating lease liabilities - non-current	Operating lease liabilities	197,337	197,522
Total lease liabilities, net		$ 221,121	$ 218,352

Supplemental cash flow information related to leases for fiscal years 2024 and 2023 is as follows:

	March 31, 2024	March 26, 2023
Cash paid for amounts included in the measurement of lease liabilities Operating cash flows from operating leases	$ 26,808	$ 25,074
Right-of-use assets obtained in exchange for new operating lease liabilities	2,032	13,338

The weighted-average remaining lease terms and discount rates as of March 31, 2024, and March 26, 2023 are as follows:

	March 31, 2024	March 26, 2023
Weighted average remaining lease term, in years Operating leases	10.7	12.2
Weighted average discount rate Operating leases	2.8 %	2.6 %

The annual maturities of our operating lease liabilities as of March 31, 2024 are as follows:

	Operating Leases	Finance Lease
Fiscal years: 2025	$ 29,518	$ 85
2026	27,278	85
2027	25,968	85
2028	25,705	86
2029	24,972	93
Thereafter	123,447	870
Total future lease commitments	256,888	1,304
Less imputed interest	(35,767)	(454)
Present value of lease liabilities	221,121	850
Less: current portion of lease liabilities	23,784	—
Noncurrent portion of lease liabilities	$ 197,337	$ 850

Finance lease obligation—In connection with the build-to-suit lease, we capitalized $5.5 million of construction costs. As of March 31, 2024, accumulated depreciation was $773,000, and the financing obligation was $850,000. As of March 26, 2023, accumulated depreciation was $643,000, and the financing obligation was $799,000.

12. STOCK-BASED COMPENSATION

Our 2012 Unit Award Plan (the "Units Plan") was implemented to promote the long-term growth and profitability of the Company by providing those involved in the Company's growth with an opportunity to acquire an ownership interest in the Company, thereby encouraging them to contribute to and participate in the success of the Company. The number of Units authorized for issuance in the Parent was increased during fiscal year 2021 by 30,000,000 Units to 31,167,480 Units. The Units contain both service and performance vesting conditions. Through fiscal year 2024, we granted 30,368,103 Units and forfeited 1,305,888 Units, leaving 2,105,265 Units available under the Units Plan.

The service vesting Units vest in equal annual installments from the grant date. We recognize stock- based compensation expense related to these awards ratably over the vesting periods. The performance vesting Units vest upon any equity proceeds received by our shareholders that meet various dollar thresholds. We recognize stock-based compensation expense related to the performance vesting Units when we deem the achievement of the performance conditions probable. As a result of the transaction (Note 16) subsequent to year end, 2,599,661 Units were fully vested under change in control provisions resulting in a compensation charge of $38.2 million on May 1, 2024. The grant date fair value of the Units is estimated using a Black-Scholes option pricing model. The estimated forfeiture rate used to record compensation expense is based on historical forfeitures and is adjusted periodically

based on actual results. There was no compensation expense recorded during either fiscal year 2024 or 2023 for the performance vesting Units. Transactions under the Units Plan were as follows:

	Performance Vesting Units	Service Vesting Units	Service Vesting Units Weighted-Average Grant Date Fair Value (per Share)
Outstanding - March 27, 2022	28,288,154	536,763	
Forfeited	(3,429)	(2,286)	14.20
Outstanding - March 26, 2023	28,284,725	534,477	
Granted	—	—	—
Outstanding - March 31, 2024	28,284,725	534,477	

As of March 31, 2024, the weighted-average contractual term is 0.2 years, and the remaining unrecognized compensation cost of the service vesting Units was $3,000.

13. INCOME TAXES

Deferred tax assets and liabilities reflect the tax effect of temporary differences between amounts of assets and liabilities for financial reporting purposes and the amounts of these assets and liabilities as measured by income tax law. The income tax effects of temporary differences that give rise to deferred tax assets and liabilities as of March 31, 2024, and March 26, 2023, are as follows (in thousands):

	March 31, 2024	March 26, 2023
Deferred tax assets: ASC 842 lease liability	$ 57,227	$ 56,853
FICA tip credit carryover	25,609	26,336
Disallowed interest carryforward	24,007	18,097
State net operating loss carryforwards	4,364	4,770
Property and equipment	2,232	2,426
Accrued liabilities and other	1,765	2,527
Gift card liability	1,071	903
Workers' compensation	970	863
Goodwill and intangibles	443	468
Straight-line rent expense	270	258
Amortization of gain	113	132
Employee benefit accruals	9	7
Federal net operating loss carryforwards	—	1,922
Other carryforwards	242	514
	118,322	116,076
Valuation allowance	(486)	(56,386)
Deferred tax liabilities:		
Operating right-of-use assets	49,744	51,705
Trademarks	20,223	20,156
Goodwill	364	360
Inventories	244	240
Franchise agreements	66	115
	70,641	72,576
Net deferred tax assets (liabilities)	$ 47,195	$ (12,886)

We have FICA tip credit carryovers of $25.6 million that expire between 2033 and 2044.

In addition, we have certain state and federal net operating loss carryforwards of $83.1 million, with an estimated tax effect of $4.4 million. While a portion of the ending tax effect of these net operating loss carryforwards will carryforward indefinitely without expiration, almost all of the balance of our net operating loss carryforwards expire at various dates through 2044. In assessing whether the deferred tax assets may be realized, we considered whether it is more likely than not that some or all of the deferred tax assets will not be realized based upon an assessment of both positive and negative evidence as prescribed by applicable accounting guidance. We computed a three-year cumulative income / loss analysis on a jurisdiction-by-jurisdiction basis and concluded that sufficient negative evidence exists to require a valuation allowance for a portion of the aforementioned net operating losses. Accordingly, we believe that it is more likely than not that the benefit from certain net operating loss carryforwards will not be realized, and as of March 31, 2024, we have provided a valuation allowance of $353,000 for these net operating loss carryforwards. We intend to maintain a state valuation allowance until sufficient positive evidence exists to support its reversal.

As of March 31, 2024, we recorded a reversal of our previously existing valuation allowance of $55.9 million. Both positive and negative evidence, as well as the objectivity and verifiability of that evidence, was considered in determining the appropriateness of recording a reversal of the valuation allowance on deferred tax assets. An accumulation of recent pretax losses is considered strong negative evidence in that evaluation. We have reversed the valuation allowance due to positive evidence outweighing the negative evidence. As of March 31, 2024, we continue to maintain a valuation allowance of $133,000 related to separate Company state deferred tax assets. These assets pertain to jurisdictions where certain of our loss generating subsidiaries file standalone tax returns.

Net deferred tax assets as of March 31, 2024 consist of long-term assets totaling $47.2 million and net deferred tax liabilities as of March 26, 2023, consist of long-term liabilities totaling $12.9 million.

The income tax (benefit) provision for fiscal years 2024 and 2023 consists of the following (in thousands):

	March 31, 2024	March 26, 2023
Current tax provision:		
Federal	$ 970	$ 154
State	1,214	1,113
Deferred tax benefit—federal and state	(60,081)	2,360
Income tax (benefit) provision	$ (57,897)	$ 3,627

The income tax (benefit) provision differed from the amount computed at the statutory rate primarily due to changes to the valuation allowance recorded and net operating losses, offset by tax credits in fiscal years 2024 and 2023. We file income tax returns that are periodically audited by various federal and state jurisdictions. We are generally no longer subject to federal and state income tax examinations for years prior to fiscal year 2020. During fiscal year 2023, our New York state income tax returns for fiscal years 2008 through 2011 were under examination. During fiscal year 2024, the Company was able to reach a settlement with the state and remitted a payment of $350,000 to resolve the outstanding issue and the examination has been closed as of March 31, 2024.

As of March 31, 2024, and March 26, 2023, we had $298,000 and $619,000 of unrecognized tax liability related to uncertain tax positions, respectively.

The unrecognized tax liability and related interest and penalties are generally classified as other long-term liabilities in the accompanying consolidated balance sheets. A reconciliation of beginning and ending unrecognized tax benefits, exclusive of related interest and penalties, as of March 31, 2024, and March 26, 2023, is as follows (in thousands):

Unrecognized tax benefits—March 27, 2022	$	591
Gross decreases—prior-period tax positions		—
Gross increases—prior-period tax positions		28
Unrecognized tax benefits—March 26, 2023		619
Gross decreases—prior-period tax positions		(350)
Gross increases—prior-period tax positions		29
Unrecognized tax benefits—March 31, 2024	$	298

We recognize interest and penalties related to unrecognized tax benefits within income tax expense in the accompanying consolidated statements of comprehensive income. As of March 31, 2024, the amount accrued for the payment of interest was $186,000, and we did not incur any penalties related to unrecognized tax benefits.

14. COMMITMENTS AND CONTINGENCIES

Wage and Hour Proceedings—The Company has been named in various class action litigations involving wage and hour laws in both California and New York. The courts have approved the settlements in all of the matters. With the exception of any claimants that opt out of the class, these settlements release us from all California and New York wage and hour laws through December 2020. In fiscal year 2022, we entered into an indemnification agreement with a third-party vendor whereby we received $2.0 million as settlement proceeds with regards to the California wage and hour class action. We have recorded a liability for $1.0 million, which represents our best estimate of the probable exposure and is reflected as of March 31, 2024 in the accompanying consolidated balance sheets.

Unclaimed Property Proceeding—Various states have initiated unclaimed property audits. As of March 26, 2023, we accrued a liability of $28,000, which represents our best estimate of the probable exposure. During fiscal year 2024, we paid $38,000 in connection with these audits, therefore closing the audits. We have no further liability as of March 31, 2024.

We are not subject to any other significant pending legal proceedings other than ordinary routine claims incidental to our business or those otherwise covered by our insurance policies.

We do not believe that the ultimate resolution of these matters will have a material adverse effect on our results of operations, financial condition or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material effect on our financial condition, results of operations, or cash flows.

Supply Agreements—We entered into national supply agreements for the purchase of certain commodities, such as beef and seafood items, as well as produce, oils, and other items used in the normal course of business, at fixed prices for up to 12-month terms. These supply agreements will eliminate volatility in the cost of the commodities over the terms of the agreements. These supply agreements are not considered derivative contracts.

15. INCENTIVE, DEFERRED COMPENSATION AND 401(K) PLANS

Incentive Plan—We have an incentive compensation plan whereby cash bonus awards are made if we attain certain financial targets or at the discretion of the compensation committee of the board of directors (the "Compensation Committee"). Our annual incentive compensation plan ties key employees' bonus earning potential to individually designed performance objectives. Under the plan, each plan participant is provided a range of potential annual cash incentive awards based on his or her individually designed performance objectives. Actual awards paid under the plan are based on exceeding goals tied to certain budgeted results. A portion of awards is also determined by achieving other performance and management goals. Target rates are approved annually by the Compensation Committee.

We did not record corporate incentive compensation expense during fiscal year 2024. We recorded $1.3 million of corporate incentive compensation expense during fiscal year 2023.

Deferred Compensation Plan—We have an executive retirement plan whereby certain key employees were able to elect to defer up to 20% of their salary and 100% of their bonus until retirement or age 55, whichever is later, or due to disability or death. Employees selected from various investment options for which to invest their available account balances. The plan was frozen in July 2012. We elected to invest the deferrals in mutual funds that track the election made by the participants and to monitor the selected investments' performance. Investment earnings are credited to their accounts, and we increase or decrease our obligations under the deferred compensation plan based upon such investment results.

401(K) Plans—We maintain the Benihana 401(k) Plan and the Benihana Restaurant Employees 401(k) Plan ("401(k) Plans"), which are defined contribution plans covering all eligible employees. Under the provisions of the 401(k) Plans, participants may direct us to defer a portion of their compensation to the respective 401(k) Plan, subject to Internal Revenue Code limitations. All contributions vest immediately. We do not provide for an employer matching contribution.

16. SUBSEQUENT EVENTS

On May 1, 2024, The One Group Hospitality, Inc. acquired 100% of the issued and outstanding equity interests of the Parent. As a result of the closing transaction, the term loan, along with accrued interest, was paid off on May 1, 2024. Additionally, $5.4 million was paid out related to the vesting of performance based units upon the sale of the Company.

We have completed an evaluation of subsequent events, and we believe that no other material subsequent events have occurred through June 27, 2024, the date these consolidated financial statements were available for issuance, that required recognition or disclosure in our current-period consolidated financial statements, other than those discussed herein.

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On May 1, 2024, The ONE Group Hospitality, Inc. (the "Company" or "The ONE Group") acquired 100% of the issued and outstanding equity interests of Safflower Holdings Corp. from Safflower Holdings LLC, for $365.0 million in cash, subject to customary adjustments for pre-closing estimates for indebtedness, cash, net working capital and seller transaction expenses (the "Acquisition"). Safflower Holdings Corp. beneficially owns most of the Benihana restaurants, as well as all of the RA Sushi restaurants, in the United States (collectively, "Benihana"). It also franchises Benihana locations in the U.S., Latin America (excluding Mexico) and the Caribbean.

On May 1, 2024, the Company, The ONE Group, LLC, a wholly owned subsidiary of the Company, and certain other operating subsidiaries of the Company entered into a Credit Agreement ("Credit Agreement") with Deutsche Bank AG New York Branch, HPS Investment Partners, LLC, HG Vora Capital Management, LLC and certain of their respective affiliates and subsidiaries (collectively, the "Initial Lenders"). The Credit Agreement provides for a $350.0 million senior secured term loan facility (the "Term Loan Facility") and a $40.0 million senior secured revolving credit facility (the "Revolving Facility", and together with the Term Loan Facility, the "Facilities"), up to $10.0 million of which will be available in the form of letters of credit. On May 1, 2024, the Company borrowed $350 million under the Term Loan Facility and the Revolving Facility was undrawn.

The Term Loan Facility will not be subject to a financial covenant and the Revolving Facility's financial covenant will apply only after 35% of the Revolving Facility's capacity has been drawn.

The Term Loan Facility will bear interest at a margin over a reference rate selected at the option of the borrower. The margin for the Term Loan Facility will be 6.5% per annum for SOFR borrowings and 5.5% per annum for base rate borrowings. The Term Loan Facility will mature on the fifth anniversary of the date of the related loan agreement. The Term Loan Facility is payable in quarterly installments commencing with the fiscal quarter ending September 30, 2024, and are 1% per annum for the first year (through June 30, 2025), then 2.5% per annum for the next two years (through June 30, 2027), then 5% per annum thereafter through maturity on April 30, 2029.

The Revolving Facility will bear interest at a margin over a reference rate selected at the option of the borrower. The margin for the Revolving Facility will be set quarterly based on the Company's Consolidated Net Leverage Ratio for the preceding four fiscal quarter period and will range from 5.5% to 6.0% per annum for SOFR borrowings and 4.5% to 5.0% for base rate borrowings. The Revolving Facility will mature on the date that is fifty-four months after the date of the related loan agreement.

The Term Loan Facility was used to finance the Acquisition as well as refinance the Company's existing credit agreement with Goldman Sachs Specialty Lending Group, L.P. and Goldman Sachs Bank USA (the "Refinancing") and to pay fees and expenses in connection with the Acquisition, the Refinancing, the issuance and sale of the Preferred Stock (as defined below) and incurrence of the Facilities.

On May 1, 2024, pursuant to that certain Investment Agreement dated as of March 26, 2024 by and among the Company, HPC III Kaizen LP and HPS Investment Partners, LLC (the "Investment Agreement"), the Company sold and issued to (a) HPC III Kaizen LP, for $150 million cash, subject to a 5% original issuance discount, 150,000 shares of Preferred Stock (as defined below) in book-entry form, a warrant to purchase 1,786,582 shares of Common Stock of the Company for an exercise price of $0.01 per share, and a warrant to purchase 1,000,000 shares of Common Stock of the Company for an exercise price of $10.00 per share and (b) to the HPS Investors, for $10 million cash in the aggregate, subject to a 5% original issuance discount, securities allocated among the HPS Investors as follows: (i) to HPS Special Situations Opportunity Fund II, L.P., 4,309 shares of such Preferred Stock in book-entry form, a warrant to purchase 51,236 shares of Common Stock of the Company for an exercise price of $0.01 per share, and a warrant to purchase 28,729 shares of Common Stock of the Company for an exercise price of $10.00 per share, (ii) to SSOF II BH US Subsidiary, L.P., 3,961 shares of such Preferred Stock in book-entry form, a warrant to purchase 43,957 shares of Common Stock of the Company for an exercise price of $0.01 per share, and a warrant to purchase 24,604 shares of Common Stock of the Company for an exercise price of $10.00 per share, (iii) to HPS Corporate Lending Fund, 1,000 shares of such Preferred Stock in book-entry form, a warrant to purchase 11,911 shares of Common Stock of the Company for an exercise price of $0.01 per share, and a warrant to purchase 6,667 shares of Common Stock of the Company for an exercise price of $10.00 per share, and (iv) to HPS Corporate Capital Solutions Fund, 1,000 shares of such Preferred Stock in book-entry form, a warrant to purchase 11,911 shares of Common Stock of the Company for an exercise price of $0.01 per share, and a warrant to purchase 6,667 shares of Common Stock of the Company for an exercise price of $10.00 per share, in each case of clauses (a) and (b), in a private placement exempt from registration under the Securities Act of 1933, as amended.

The foregoing description of the Credit Agreement and Investment Agreement is a summary only and is qualified in its entirety by reference to the full text of the Credit Amendment filed on Form 8-K on May 1, 2024 and the Investment Agreement filed on Form 8-K on March 26, 2024.

The following unaudited pro forma condensed combined financial information of the Company gives effect to the acquisition of Benihana which closed on May 1, 2024 ("the Benihana Acquisition") and the related financing pursuant to the terms of the Credit Agreement and Investment Agreement, all of which are collectively referred to as "the Transaction". The historical Benihana financial information has been adjusted in the Unaudited Pro Forma Condensed Combined Financial Information to give effect to pro forma events that are: (1) directly attributable to the Transaction, (2) factually supportable, and (3) with respect to the unaudited pro forma combined statements of operations, expected to have a continuing impact on the combined results following the business combination.

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

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

The following unaudited pro forma condensed consolidated balance sheet gives effect to the Acquisition as if it had occurred on March 31, 2024. The unaudited pro forma condensed consolidated statements of operations for the three months ended March 31, 2024 and the fiscal year ended December 31, 2023 give effect to the Acquisition as if it had occurred on January 1, 2023. The unaudited pro forma condensed consolidated financial statements were based on and should be read in conjunction with (i) the unaudited consolidated financial statements of the Company included in its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2024; (ii) the audited consolidated financial statements of the Company included in its Annual Report on Form 10-K for the year ended December 31, 2023; (iii) the audited consolidated financial statements of Benihana for the fiscal year ended March 31, 2024; and (iv) the notes to the unaudited pro forma condensed consolidated financial statements.

In the unaudited pro forma condensed combined statement of operations for the year ended December 31, 2023, Benihana's financial information is presented for the fiscal year ended March 31, 2024 as permitted by SEC rules for combining companies with different fiscal year-ends. In the unaudited pro forma condensed combined statement of operations for the three months ended March 31, 2024, Benihana's financial information is presented for the three months ended March 31, 2024. The financial information for the three months ended March 31, 2024 is also included in the financial information for the fiscal year ended March 31, 2024 as permitted by SEC rules for combining companies with different fiscal year-ends.

In the opinion of the Company's management, the unaudited pro forma condensed consolidated financial statements include all significant necessary adjustments that can be factually supported to reflect the effects of the Acquisition and related transactions. The unaudited pro forma condensed consolidated financial statements are provided for informational purposes only and are not necessarily indicative of what actual results of operations would have been had the Acquisition and related transactions been completed as of the dates indicated or that may be achieved in the future due to a variety of factors, including the fact that the determination of the fair value of assets acquired and liabilities assumed and resulting goodwill in the unaudited pro forma condensed consolidated financial statements is based upon preliminary estimates.

Unaudited Pro Forma Condensed Combined Balance Sheet
March 31, 2024
(in thousands)

	The ONE Group as of March 31, 2024	Benihana as of March 31, 2024 as presented	Transaction Accounting Adjustments		Pro Forma Condensed Combined
Assets					
Cash and cash equivalents	$ 15,374	$ 18,477	$ 10,411	4(a)	$ 44,262
Cash and cash equivalents - restricted	—	499	—		499
Accounts Receivable	12,172	11,521	—		23,693
Inventory	5,395	5,749	—		11,144
Other current assets	4,646	5,567	262	4(b)	10,475
Investment securities, available for sale - restricted	—	35	—		35
Due from related parties, net	376	—	—		376
Total current assets	37,963	41,848	10,673		90,484
Property and equipment, net	147,304	102,375	(1,908)	4(c)	247,771
Operating lease right-of-use assets	87,900	192,209	3,220	4(d)	283,329
Deferred tax assets, net	15,141	47,195	(59,925)	4(e)	2,411
Intangible assets	15,305	77,715	53,185	4(f)	146,205
Goodwill	—	50,804	120,287	4(g)	171,091
Other assets	4,819	2,211	998	4(b)	8,028
Security deposits	883	716	—		1,599
Total assets	$ 309,315	$ 515,073	$ 126,530		$ 950,918
Total Liabilities, Mezzanine Equity and Stockholders' Equity					
Accounts payable	$ 15,819	$ 8,672	$ —		$ 24,491
Accrued expenses	31,525	34,722	(8,025)	4(h)	58,222
Deferred gift card revenue and other	2,006	4,139	—		6,145
Current portion of operating lease liabilities	7,534	23,784	(15,714)	4(d)	15,604
Current portion of long-term debt	1,856	—	769	4(i)	2,625
Other current liabilities	310	—	—		310
Total current liabilities	59,050	71,317	(22,970)		107,397
Operating lease liabilities, net of current portion	113,191	196,947	(25,178)	4(d)	284,960
Long-term debt, net of current portion	70,207	214,410	46,559	4(i)	331,176
Other long-term liabilities	771	4,937	—		5,708
Total liabilities	243,219	487,611	(1,588)		729,242
Mezzanine Equity					
Preferred stock	—	—	138,793	4(i)	138,793
Stockholders' Equity					
Common stock	3	—	—		3
Treasury stock	(15,051)	—	—		(15,051)
Additional paid-in capital	59,504	140,297	(129,715)	4(j)	70,086
Retained earnings	26,815	(112,835)	119,041	4(j)	33,021
Accumulated other comprehensive loss	(2,998)	—	—		(2,998)
Total stockholders' equity	68,273	27,462	(10,675)		85,060
Noncontrolling interests	(2,177)	—	—		(2,177)
Total equity	66,096	27,462	(10,675)		82,883
Total Liabilities, Mezzanine Equity and Stockholders' Equity	$ 309,315	$ 515,073	$ 126,530		$ 950,918

See notes to unaudited pro forma condensed combined financial information

Unaudited Pro Forma Condensed Combined Statements of Operations
Three Months Ended March 31, 2024
(in thousands, except share information)

	The ONE Group Quarter Ended March 31, 2024	Benihana Quarter Ended March 31, 2024 as presented	Transaction Accounting Adjustments		Pro Forma Condensed Combined
Revenues:					
Owned restaurant net revenue	$ 81,508	$ 132,034	$ —		$ 213,542
Management, license and incentive fee revenue	3,487	1,203	—		4,690
Total revenues	84,995	133,237	—		218,232
Cost and expenses:					
Owned operating expenses:					
Owned restaurants cost of sales	18,714	25,854	—		44,568
Owned restaurants operating expenses	49,638	82,468	—		132,106
Total owned operating expenses	68,352	108,322	—		176,674
General and administrative (including stock-based compensation of $1,358 for The ONE Group and $4 for Benihana)	7,534	7,281	—		14,815
Depreciation and amortization	5,260	4,783	(731)	5(a)	9,312
Pre-opening expenses	2,914	242	—		3,156
Transaction costs	1,523	880	—		2,403
Impairment charges	—	8,946	—		8,946
Other expenses	32	452	—		484
Total costs and expenses	85,615	130,906	(731)		215,790
Operating income	(620)	2,331	731		2,442
Other expenses, net:					
Interest expense, net of interest income	2,078	8,821	(504)	5(b)	10,395
Total other expenses, net	2,078	8,821	(504)		10,395
Income (loss) before provision (benefit) for income taxes	(2,698)	(6,490)	1,235		(7,953)
Provision (benefit) for income taxes	(268)	(58,974)	60,018	5(c)	776
Net income (loss)	(2,430)	52,484	(58,783)		(8,729)
Less: net loss attributable to noncontrolling interest	(361)	—	—		(361)
Net income (loss) attributable to The ONE Group Hospitality, Inc.	$ (2,069)	$ 52,484	$ (58,783)		$ (8,368)
Basic net income (loss) per share	$ (0.07)				$ (0.27)
Diluted net income (loss) per share	$ (0.07)				$ (0.27)
Shares used in computing basic earnings per share	31,306,417				31,306,417
Shares used in computing diluted earnings per share	31,306,417				31,306,417

See notes to unaudited pro forma condensed combined financial information

Unaudited Pro Forma Condensed Combined Statements of Operations
Year Ended December 31, 2023
(in thousands, except share information)

	The ONE Group Fiscal Year Ended December 31, 2023	Benihana Fiscal Year Ended March 31, 2024 as presented	Transaction Accounting Adjustments		Pro Forma Condensed Combined
Revenues:					
Owned restaurant net revenue	$ 317,366	$ 527,549	$ —		$ 844,915
Management, license and incentive fee revenue	15,403	2,591	—		17,994
Total revenues	332,769	530,140	—		862,909
Cost and expenses:					
Owned operating expenses:					
Owned restaurants cost of sales	75,727	104,370	—		180,097
Owned restaurants operating expenses	191,250	329,047	—		520,297
Total owned operating expenses	266,977	433,417	—		700,394
General and administrative (including stock-based compensation of $5,032 for The ONE Group and $33 for Benihana)	30,751	33,490	—		64,241
Depreciation and amortization	15,664	17,147	(939)	5(a)	31,872
Pre-opening expenses	8,855	2,519	—		11,374
Transaction costs	207	1,748	—		1,955
Impairment charges	—	8,946	—		8,946
Other expenses	1,021	1,887	—		2,908
Total costs and expenses	323,475	499,154	(939)		821,690
Operating income	9,294	30,986	939		41,219
Other expenses, net:					
Interest expense, net of interest income	7,028	35,370	(4,598)	5(b)	37,800
Total other expenses, net	7,028	35,370	(4,598)		37,800
Income (loss) before provision (benefit) for income taxes	2,266	(4,384)	5,537		3,419
Provision (benefit) for income taxes	(1,760)	(57,897)	60,340	5(c)	683
Net income	4,026	53,513	(54,803)		2,736
Less: net loss attributable to noncontrolling interest	(692)	—	—		(692)
Net income attributable to The ONE Group Hospitality, Inc.	$ 4,718	$ 53,513	$ (54,803)		$ 3,428
Basic net income per share	$ 0.15				$ 0.11
Diluted net income per share	$ 0.15				$ 0.11
Shares used in computing basic earnings per share	31,556,437				31,556,437
Shares used in computing diluted earnings per share	32,287,864				32,287,864

See notes to unaudited pro forma condensed combined financial information

Notes to Unaudited Pro Forma Condensed Combined Financial Information

Note 1 – Basis of Presentation

The unaudited pro forma condensed combined balance sheet and statements of operations were derived from the historical audited and unaudited consolidated financial statements of the Company and Benihana. The unaudited pro forma condensed combined balance sheet as of March 31, 2024 assumes the Transaction occurred on March 31, 2024. The unaudited pro forma condensed combined statements of operations assume the Transaction occurred on January 1, 2023, the first day of the Company's most recent fiscal year.

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

The unaudited pro forma combined financial information provided are for illustrative purposes only, and do not purport to represent what the combined company's financial position or results of operations would have been had the acquisition occurred on the dates indicated. They also may not be useful in predicting the future financial condition and results of operations of the combined company. The actual financial condition and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors. Refer to Note 6 – Pro Forma Non-GAAP for the anticipated impact of future planned cost savings initiatives following the completion of the business combination.

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

ASC 805 requires the determination of the accounting acquirer, the acquisition date, the fair value of assets and liabilities of the acquiree and the measurement of goodwill. The ONE Group has been identified as the acquirer for accounting purposes based on the facts and circumstances specific to the Transaction. As a result, The ONE Group will record the business combination in its financial statements and will apply the acquisition method to account for the acquired assets and liabilities of Benihana. For purposes of the unaudited condensed combined financial information, management made a preliminary allocation of the consideration paid to the assets acquired and liabilities assumed based on the information available and management's preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed. Accordingly, the pro forma adjustments related to the allocation of consideration paid are preliminary and have been presented solely for the purpose of providing unaudited pro forma condensed combined balance sheets and pro forma condensed combined statements of operations in the Current Report on Form 8-K/A. Management expects to finalize the accounting for the business combination as soon as practicable within the measurement period in accordance with ASC 805, but in no event later than one year from May 1, 2024. The finalization of the purchase accounting assessment may result in changes to the valuation of assets acquired and liabilities assumed, which could be material.

Footnotes Related to the Benihana Acquisition

Note 2 – Accounting Policy Alignment and Reclassifications

During the preparation of the unaudited pro forma condensed combined financial information, the Company performed an analysis of Benihana's financial information to identify differences in accounting policies as compared to those of the Company and differences in financial statement presentation as compared to the financial statement presentation of the Company. With the information currently available, the Company has determined that there are adjustments necessary to conform Benihana's financial statements to the accounting policies used by the Company. Additionally, certain reclassifications have been made to conform Benihana's financial information presentation to that of the Company as indicated in the tables below. The reclassification adjustments to conform Benihana's financial information presentation to that of the Company have no impact on net assets or net income.

Reclassifications in the unaudited pro forma condensed combined balance sheet as of March 31, 2024 are presented below (in thousands):

	Benihana as of March 31, 2024	Reclassifications to the Company's Presentation		Benihana as of March 31, 2024 as presented
Assets				
Cash and cash equivalents	$ 27,177	$ (8,700)	(a)	$ 18,477
Cash and cash equivalents - restricted	499	—		499
Accounts Receivable	4,061	7,460	(a), (c)	11,521
Inventory	5,749	(1,109)	(g)	4,640
Other current assets	5,567	—		5,567
Investment securities, available for sale - restricted	35	—		35
Due from related parties, net	—	—		—
Total current assets	43,088	(2,349)		40,739
Property and equipment, net	102,375	1,109	(g)	103,484
Operating lease right-of-use assets	192,209	—		192,209
Deferred tax assets, net	47,195	—		47,195
Intangible assets	79,366	(1,651)	(d)	77,715
Goodwill	50,804	—		50,804
Other assets	1,276	935	(b)(d)	2,211
Security deposits	—	716	(b)	716
Total assets	$ 516,313	$ (1,240)		$ 515,073
Total Liabilities, Mezzanine Equity and Stockholders' Equity				
Accounts payable	$ 8,672	$ —		$ 8,672
Accrued expenses	38,861	(4,139)	(e)	34,722
Deferred gift card revenue and other	—	4,139	(e)	4,139
Current portion of operating lease liabilities	23,784	—		23,784
Current portion of long-term debt	—	—		—
Other current liabilities	—	—		—
Total current liabilities	71,317	—		71,317
Operating lease liabilities, net of current portion	197,337	(390)	(c)(f)	196,947
Long-term debt, net of current portion	214,410	—		214,410
Deferred tax liabilities, net	—	—		—
Finance lease obligation	850	(850)	(f)	—
Other long-term liabilities	4,937	—		4,937
Total liabilities	488,851	(1,240)		487,611
Mezzanine Equity				
Preferred stock	—	—		—
Stockholders' Equity				
Common stock	—	—		—
Treasury stock				
Additional paid-in capital	140,297	—		140,297
Retained earnings	(112,835)	—		(112,835)
Accumulated other comprehensive income	—	—		—
Total stockholders' equity	27,462	—		27,462
Noncontrolling interests	—	—		—
Total equity	27,462	—		27,462
Total Liabilities, Mezzanine Equity and Stockholders' Equity	$ 516,313	$ (1,240)		$ 515,073

(a) Represents reclassification of $8,700,000 from cash and cash equivalents to accounts receivable for credit card transactions that are typically received within 1-3 business days.
(b) Represents reclassification of $716,000 in deposits from other assets to security deposits.
(c) Represents reclassification of $1,240,000 from accounts receivable to operating lease liabilities, net of current portion for tenant improvement allowances expected to be received from landlords.
(d) Represents reclassification of $1,651,000 from intangible assets to other assets for premium on liquor licenses.
(e) Represents reclassification of $4,139,000 from accrued expenses to deferred gift card revenue and other for unredeemed gift cards and advance party deposits.
(f) Represents reclassification of $850,000 from finance lease obligation to operating lease liabilities, net of current portion.
(g) Represents reclassification of $1,109,000 of restaurant smallwares from inventory to property and equipment, net.

Reclassifications in the unaudited pro forma condensed combined statements of operations for the three months ended March 31, 2024 (in thousands):

	Benihana Quarter Ended March 31, 2024	Reclassifications to the Company's Presentation	Benihana Quarter Ended March 31, 2024 as presented
Revenues:			
Owned restaurant net revenue	$ 132,592	$ (558)(a)	$ 132,034
Management, license and incentive fee revenue	1,203	—	1,203
Other revenue	(558)	558 (a)	—
Total revenues	133,237	—	133,237
Cost and expenses:			
Owned operating expenses:			
Owned restaurants cost of sales	25,854	—	25,854
Owned restaurants operating expenses	87,122	(4,654)(b)	82,468
Total owned operating expenses	112,976	(4,654)	108,322
General and administrative (including stock-based compensation of $4)	8,742	(1,461)(b)(c)(d)	7,281
Depreciation and amortization	—	4,783 (b)	4,783
Pre-opening expenses	242	—	242
Transaction costs	—	880 (c)	880
Impairment charges	8,946	—	8,946
Other expenses	—	452 (d)	452
Total costs and expenses	130,906	—	130,906
Operating income	2,331	—	2,331
Other expenses, net:			
Interest expense, net of interest income	8,821	—	8,821
Total other expenses, net	8,821	—	8,821
Income (loss) before provision (benefit) for income taxes	(6,490)	—	(6,490)
Provision (benefit) for income taxes	(58,974)	—	(58,974)
Net income	52,484	—	52,484
Less: net loss attributable to noncontrolling interest	—	—	—
Net income	$ 52,484	$ —	$ 52,484

(a) Represents the reclassification of $588,000 from other revenue to owned restaurant net revenues associated with reversal of gift card breakage revenue.

(b) Represents the reclassification of depreciation and amortization of $4,654,000 from owned restaurant operating expenses and $129,000 from general and administrative to depreciation and amortization.

(c) Represents the reclassification of $880,000 from general and administrative to transaction costs for fees and expenses associated with the Acquisition.

(d) Represents the reclassification of $452,000 from general and administrative to other expenses primarily related to litigation expenses.

(e) Represents $8,946,000 in impairment charges of the property and equipment and right of use assets primarily for three RA Sushi restaurants.

Reclassifications in the unaudited pro forma condensed combined statements of operations for the year ended December 31, 2023 (in thousands):

	Benihana Fiscal Year Ended March 31, 2024	Reclassifications to the Company's Presentation	Benihana Fiscal Year Ended March 31, 2024 as presented
Revenues:			
Owned restaurant net revenue	$ 527,445	$ 104 (a)	$ 527,549
Management, license and incentive fee revenue	2,591	—	2,591
Other revenue	104	(104)(a)	—
Total revenues	530,140	—	530,140
Cost and expenses:			
Owned operating expenses:			
Owned restaurants cost of sales	104,370	—	104,370
Owned restaurants operating expenses	346,149	(17,102)(b)	329,047
Total owned operating expenses	450,519	(17,102)	433,417
General and administrative (including stock-based compensation of $33)	37,170	(3,680)(b)(c)(d)	33,490
Depreciation and amortization	—	17,147 (b)	17,147
Pre-opening expenses	2,519	—	2,519
Transaction costs	—	1,748 (c)	1,748
Impairment charges	8,946	—	8,946
Other expenses	—	1,887 (d)	1,887
Total costs and expenses	499,154	—	499,154
Operating income	30,986	—	30,986
Other expenses, net:			
Interest expense, net of interest income	35,370	—	35,370
Total other expenses, net	35,370	—	35,370
Income (loss) before provision (benefit) for income taxes	(4,384)	—	(4,384)
Provision (benefit) for income taxes	(57,897)	—	(57,897)
Net income	53,513	—	53,513
Less: net loss attributable to noncontrolling interest	—	—	—
Net income	$ 53,513	$ —	$ 53,513

(a) Represents the reclassification of $104,000 from other revenue to owned restaurant net revenues associated with gift card breakage revenue.

(b) Represents the reclassification of depreciation and amortization of $17,102,000 from owned restaurant operating expenses and $45,000 from general and administrative to depreciation and amortization.

(c) Represents the reclassification of $1,748,000 from general and administrative to transaction costs for fees and expenses associated with the Acquisition.

(d) Represents the reclassification of $1,887,000 from general and administrative to other expenses primarily related to litigation expenses.

(e) Represents $8,946,000 in impairment charges of the property and equipment and right of use assets primarily for three RA Sushi restaurants.

Note 3 – Preliminary Purchase Price Allocation

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

Preliminary purchase consideration:		
Contractual purchase price	$	365,000
Cash acquired at closing		26,402
Pro forma preliminary consideration paid	$	391,402
Net assets acquired:		
Total current assets	$	38,414
Property and equipment		101,712
Right-of-use operating assets		195,429
Intangible assets		130,900
Other assets		2,899
Current liabilities		(52,066)
Deferred tax liabilities		(12,730)
Other liabilities		(4,408)
Operating lease liabilities		(179,839)
Total net assets acquired	$	220,311
Goodwill	$	171,091

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

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

Sources		Amount	Uses		Amount
Term loan	$	350,000	Consideration, transferred, net of cash acquired	$	391,402
Preferred stock and warrants		160,000	Repayment of the Company's debt, interest and loss on debt extinguishment		76,397
			Credit agreement original issuance discount and issuance costs		18,051
			Preferred stock original issuance discount		8,000
			Fees and expenses		5,739
			Cash to the Company's pro forma balance sheet		10,411
Total Sources	**$**	**510,000**	**Total Uses**	**$**	**510,000**

(b) Other current assets and Other assets – The increase represents issuance costs associated with the $40 million revolver provided for under the Credit Agreement partially offset by the write-off of issuance costs associated with the Company's debt that was repaid.

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

Asset Class	Estimated Preliminary Fair Value	Historical Book Value	Reclassification to the Company's Presentation	Adjusted Historical Book Value	Pro Forma Adjustment
Leasehold improvements	$ 71,229	$ 196,910	$ 159	$ 197,069	$ (125,840)
Building	—	159	(159)	—	—
Equipment	14,473	37,155	—	37,155	(22,682)
Furniture and fixtures	8,017	21,932	—	21,932	(13,915)
Construction in progress	6,884	6,884	—	6,884	—
Restaurant smallwares	1,109	1,109	—	1,109	—
Accumulated depreciation	—	(160,529)	—	(160,529)	160,529
Total property and equipment, net	**$ 101,712**	**$ 103,620**	**$ —**	**$ 103,620**	**$ (1,908)**

(d) Operating lease right-of-use assets and liabilities – The change in the lease asset and liability represents the change from Benihana's book value to the estimated preliminary fair value of $195.4 million.

(e) Deferred tax assets, net - The decrease in deferred tax assets, net of $59.9 million reflects the reversal of the valuation allowance that was released by the previous owner as the Company is in the process of evaluating the realizability of the deferred tax assets under its ownership.

(f) Intangible assets – The increase in intangible assets of $53.2 million represents the fair value assigned to the Benihana tradename of $125.0 million, RA Sushi tradename of $5.0 million and existing franchise rights of $0.9 million.

(g) Goodwill – The goodwill balance presented of $171.1 million is a preliminary estimate resulting from the excess of consideration transferred and the estimated net fair value of the assets acquired and liabilities assumed in the Acquisition.

(h) Accrued expenses – The reduction in accrued expenses reflects transaction costs that were paid by the seller upon the closing of the Transaction.

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

- Repayment of the Company's outstanding indebtedness of $76.4 million including accrued interest and loss on extinguishment of debt.

- Repayment by the seller of Benihana's outstanding indebtedness of $217.7 million including accrued interest.

- Write-off of debt issuance costs of $1.7 million.

- Borrowings under the Credit Agreement which provides for a $350.0 million term loan and a $40.0 million revolver, of which none was drawn at the acquisition date, offset by original issue discount and debt issuance costs of $18.1 million.

- Issuance of 160,000 shares of Series A preferred stock under the Investor Agreement for $160.0 million, partially offset by original issue discount of $8.0 million, $9.6 million fair value for 1,905,687 shares of penny warrants, and $1.0 million fair value for 1,066,667 shares of market warrants.

(j) Stockholders' equity – The change in the equity balance primarily represents $27.5 million for the elimination of Benihana's historical equity balance, $10.6 million issuance of penny warrants and market warrants as part of the Investor Agreement and transaction costs paid as part of the Acquisition.

Note 5 – Adjustments to the Unaudited Pro Forma Condensed Combined Statement of Operations for the Three Months Ended March 31, 2024 and the Year Ended December 31, 2023

(a) Depreciation and amortization – The net decrease in depreciation and amortization expense of $0.7 million for the three months ended March 31, 2024 and $0.9 million for the year ended December 31, 2023 was determined as follows, based on preliminary estimates of fair value and estimated useful lives (amounts in thousands):

Asset Class	Useful Life Years	Estimated Preliminary Fair Value	Three Months Ended March 31, 2024	Year Ended December 31, 2023
Leasehold improvements	8	$ 71,229	$ 2,482	$ 9,928
Equipment	3-8	14,473	1,144	4,575
Furniture and fixtures	5-6	8,017	475	1,901
Construction in progress	—	6,884	—	—
Restaurant smallwares	—	1,109	—	—
Total recalculated depreciation expense		**$ 101,712**	**$ 4,101**	**$ 16,404**
Less: Historical Benihana depreciation expense			4,783	17,147
Total pro forma adjustment to depreciation expense			(682)	(743)
Intangible assets - Indefinite lives	Indefinite	130,000	—	—
Intangible assets - Definite lives	15	$ 900	15	60
Less: Historical Benihana amortization expense			64	256
Total pro forma adjustment to amortization expense			(49)	(196)
Total pro forma adjustment to depreciation and amortization expense			**$ (731)**	**$ (939)**

(b) Interest – The decrease in interest expense of $0.5 million for the three months ended March 31, 2024 and $4.6 million for the year ended December 31, 2023 was based upon the interest rate per the Credit Agreement of SOFR + 6.50%. For purposes of calculating interest expense, the SOFR rate as of the beginning of each fiscal year was utilized.

(c) Provision (benefit) for income taxes - The increase in income taxes of $59.9 million reflects the reversal of the valuation allowance that was released by the previous owner as the Company is in the process of evaluating the realizability of the deferred tax assets under its ownership and the estimated impact of the pro forma adjustments using an estimated tax rate of 7.5%. The Company's effective tax rate could be materially different from the rate presented in this unaudited pro forma condensed financial information.

Note 6 –Pro Forma Non-GAAP Measures for the Three Months Ended March 31, 2024 and the Year Ended December 31, 2023

The tables below show management's estimate of the expected cost savings related to the Company's plans to leverage its supply chain across the combined company to reduce cost of sales for food and beverage products. The Company also anticipates cost savings associated with costs that may be reduced or eliminated for duplicative expenses and the consolidation of support operations. The Company expects to generate approximately $20 million annually in synergies.

The adjustments shown below include those that management deemed necessary for a fair statement of the pro forma information presented. The adjustments include forward-looking information that is subject to the safe harbor protections of the Securities Exchange Act of 1934. Actual results could differ materially from what is presented below as efforts to integrate Benihana's operations in the Company's progress.

For the three months ended March 31, 2024 (in thousands, except for share information):

	Net loss	Diluted earnings per share	Diluted weighted average shares
Pro forma combined - net income attributed to The ONE Group Hospitality, Inc.	$ (8,368)	$ (0.27)	31,306,417
Management's adjustments			
Cost savings: Owned restaurants cost of sales	2,000 (a)		
Cost savings: Owned restaurants operating expenses	500 (b)		
Cost savings: General and administrative	2,500 (c)		
Tax effect	(375)		
Pro forma combined net loss after management's adjustments	$ (3,743)	$ (0.12)	31,306,417

For the year ended December 31, 2023 (in thousands except for share information):

	Net income	Diluted earnings per share	Diluted weighted average shares
Pro forma combined - net income attributed to The ONE Group Hospitality, Inc.	$ 3,428	$ 0.11	32,287,864
Management's adjustments			
Cost savings: Owned restaurants cost of sales	8,000 (a)		
Cost savings: Owned restaurants operating expenses	2,000 (b)		
Cost savings: General and administrative	10,000 (c)		
Tax effect	(1,500)		
Pro forma combined net income after management's adjustments	$ 21,928	$ 0.68	32,287,864

(a) Owned restaurants cost of sales - Cost savings related to the Company's plans to leverage the buying power of the combined company to reduce cost of sales for food and beverage products and increase the volume of vendor rebates. The Company's estimated cost savings are primarily based upon an analysis of anticipated cost savings for beef and seafood items. The Company expects to realize the cost savings within the next twelve months.

(b) Owned restaurants operating expenses - Cost savings related to the Company's plans to leverage the buying power of the combined company to negotiate contracts for lower pricing for restaurant operating supplies such as smallwares, paper supplies and linens. The Company also expects cost savings from consolidating information technology systems and vendors for such services. The Company expects to realize the cost savings within the next twelve months.

(c) General and administrative - Cost savings related to the Company's plans to consolidate professional service vendors, reduce or eliminate duplicative positions and consolidate operational support offices. The Company's expected cost savings are based upon an evaluation of the needs of the combined company for legal, accounting and other professional services, including the consolidation of insurance programs, the elimination of duplicative positions, such as Benihana's chief executive officer, and consolidation of support functions such as the call center. The Company has realized approximately $2.5 million of cost savings and expects to realize the remaining cost savings within the next twelve months.

Adjusted EBITDA. Adjusted EBITDA is defined as net income before interest expense, provision for income taxes, depreciation and amortization, non-cash impairment loss, non-cash rent expense, pre-opening expenses, non-recurring gains and losses, stock-based compensation and certain transactional and exit costs. Not all the aforementioned items defining Adjusted EBITDA occur in each reporting period but have been included in our definitions of terms based on our historical activity. Adjusted EBITDA has been presented in this press release and is a supplemental measure of financial performance that is not required by, or presented in accordance with, GAAP.

The following table presents a reconciliation of pro forma combined net income after management's adjustments to EBITDA and Adjusted EBITDA for the periods indicated (in thousands):

	Three Months Ended March 31, 2024	Year Ended December 31, 2023
Pro forma combined net income after management's adjustments	$ (3,743)	$ 21,928
Net loss attributable to noncontrolling interest	(361)	(692)
Net income	(4,104)	21,236
Interest expense, net of interest income	10,395	37,800
(Benefit) provision for income taxes	776	683
Depreciation and amortization	9,312	31,872
EBITDA	16,379	91,591
Pre-opening expenses	3,156	11,374
Stock-based compensation	1,362	5,065
Transaction costs	2,403	1,955
Impairment charges	8,946	8,946
Non-cash rent	151	214
Other expenses	484	2,908
Adjusted EBITDA	32,881	122,053
Adjusted EBITDA attributable to noncontrolling interest	(262)	(339)
Adjusted EBITDA attributable to The ONE Group Hospitality, Inc.	$ 33,143	$ 122,392

Adjusted Net Income. Adjusted Net Income is defined as net income before impairment charges, transaction costs, non-recurring costs, non-cash rent during the pre-opening period, other expenses and the income tax effect of any adjustments.

The Company believes that Adjusted Net Income is an appropriate measure of operating performance, as it provides a clear picture of our operating results by eliminating certain one-time expenses that are not reflective of the underlying business performance. Adjusted Net Income is included in this press release because it is a key metric used by management, and we believe that it provides useful information facilitating performance comparisons from period to period. Adjusted Net Income has limitations as an analytical tool and our calculation thereof may not be comparable to that reported by other companies; accordingly, you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP.

The following table presents the calculation of Adjusted Net Income for the periods indicated (amounts in thousands, except share numbers):

	The ONE Group Quarter Ended March 31, 2024	Pro Forma Condensed Combined Quarter Ended March 31, 2024	The ONE Group Fiscal Year Ended December 31, 2023	Pro Forma Condensed Combined Fiscal Year Ended December 31, 2023
Net income (loss) attributable to The ONE Group Hospitality, Inc.	$ (2,069)	$ (8,368)	$ 4,718	$ 3,428
Adjustments:				
Non-recurring and non-cash pre-opening expenses (1)	341	753	2,093	2,579
Transaction and exit costs	1,523	2,403	207	1,955
Impairment charges	-	8,946	-	8,946
Other expenses	32	484	1,021	2,908
Adjusted net income (loss) before income taxes	(173)	4,218	8,039	19,815
Income tax effect on adjustments (2)	(398)	(944)	(249)	(1,229)
Adjusted net income (loss) attributable to The One Group Hospitality, Inc.	$ (571)	$ 3,274	$ 7,790	$ 18,586
Adjusted net income (loss) per share: Basic	$ (0.02)	$ 0.10	$ 0.25	$ 0.59
Adjusted net income (loss) per share: Diluted	$ (0.02)	$ 0.10	$ 0.24	$ 0.58
Shares used in computing basic income (loss) per share	31,306,417	31,306,417	31,556,437	31,556,437
Shares used in computing diluted income (loss) per share	31,306,417	31,681,725	32,287,864	32,287,864

(1) Non-recurring and non-cash pre-opening expenses relate to non-recurring travel expenses for our training teams and new venue employees training at other locations and non-cash rent expensed during the pre-opening period.
(2) Reflects the estimated tax expense associated with the adjustments for the three and twelve months ended March 31, 2024, and December 31, 2023.