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

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the Quarterly Period Ended March 31, 2022**

OR

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

**Commission File Number 001-37379**

**THE ONE GROUP HOSPITALITY, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**14-1961545**

(I.R.S. Employer Identification No.)

**1624 Market Street, Suite 311, Denver, Colorado**

(Address of principal executive offices)

**80202**

Zip Code

**646-624-2400**

(Registrant's telephone number, including area code)

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

Number of shares of common stock outstanding as of April 30, 2022: 32,448,872

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**PART I. FINANCIAL INFORMATION**  
**Item 1. Financial Statements**

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

	March 31, 2022	December 31, 2021
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 28,644	\$ 23,614
Accounts receivable	8,284	11,356
Inventory	5,015	3,915
Other current assets	2,481	3,666
Due from related parties	376	376
Total current assets	44,800	42,927
Property and equipment, net	71,691	69,638
Operating lease right-of-use assets	87,667	85,395
Deferred tax assets, net	12,328	12,313
Intangibles, net	15,286	15,505
Other assets	4,001	3,199
Security deposits	801	858
Total assets	<u>\$ 236,574</u>	<u>\$ 229,835</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 11,771	\$ 11,094
Accrued expenses	23,130	23,155
Deferred license revenue	79	90
Deferred gift card revenue and other	1,662	2,029
Current portion of operating lease liabilities	5,694	5,396
Current portion of long-term debt	500	500
Total current liabilities	42,836	42,264
Deferred license revenue, long-term	278	298
Operating lease liabilities, net of current portion	105,873	103,616
Long-term debt, net of current portion	23,068	23,132
Total liabilities	172,055	169,310
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Common stock, \$0.0001 par value, 75,000,000 shares authorized; 32,272,971 issued and 32,260,337 outstanding at March 31, 2022 and 32,138,396 issued and 32,125,762 outstanding at December 31, 2021	3	3
Preferred stock, \$0.0001 par value, 10,000,000 shares authorized; no shares issued and outstanding at March 31, 2022 and December 31, 2021, respectively	—	—
Treasury stock	(37)	(37)
Additional paid-in capital	54,046	53,481
Retained earnings	14,302	10,632
Accumulated other comprehensive loss	(2,737)	(2,645)
Total stockholders' equity	65,577	61,434
Noncontrolling interests	(1,058)	(909)
Total equity	64,519	60,525
Total liabilities and equity	<u>\$ 236,574</u>	<u>\$ 229,835</u>

See notes to the condensed consolidated financial statements.

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

	For the three months ended March 31,	
	2022	2021
<b>Revenues:</b>		
Owned restaurant net revenue	\$ 70,516	\$ 49,168
Management, license and incentive fee revenue	3,665	1,314
Total revenues	<u>74,181</u>	<u>50,482</u>
<b>Cost and expenses:</b>		
Owned operating expenses:		
Owned restaurant cost of sales	18,099	12,001
Owned restaurant operating expenses	39,373	27,906
Total owned operating expenses	<u>57,472</u>	<u>39,907</u>
General and administrative (including stock-based compensation of \$879 and \$1,022 for the three months ended March 31, 2022 and 2021, respectively)	6,879	5,174
Depreciation and amortization	2,715	2,699
COVID-19 related expenses	2,313	1,557
Pre-opening expenses	345	101
Lease termination expenses	255	187
Total costs and expenses	<u>69,979</u>	<u>49,625</u>
Operating income	4,202	857
Other expenses, net:		
Interest expense, net of interest income	508	1,246
Total other expenses, net	<u>508</u>	<u>1,246</u>
Income (loss) before provision (benefit) for income taxes	3,694	(389)
Provision (benefit) for income taxes	173	(329)
Net income (loss)	3,521	(60)
Less: net loss attributable to noncontrolling interest	(149)	(130)
Net income attributable to The One Group Hospitality, Inc.	<u>\$ 3,670</u>	<u>\$ 70</u>
Currency translation loss	(92)	(18)
Comprehensive income attributable to The ONE Group Hospitality, Inc.	<u>\$ 3,578</u>	<u>\$ 52</u>
Net income attributable to The ONE Group Hospitality, Inc. per share:		
Basic net income per share	\$ 0.11	\$ —
Diluted net income per share	\$ 0.11	\$ —
Shares used in computing basic income per share	<u>32,231,210</u>	<u>29,168,576</u>
Shares used in computing diluted income per share	<u>34,245,445</u>	<u>32,031,479</u>

See notes to the condensed consolidated financial statements.

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

	Common stock		Treasury stock	Additional paid-in capital	Retained Earnings	Accumulated other comprehensive loss	Stockholders' equity	Noncontrolling interests	Total
	Shares	Par value							
Balance at December 31, 2021	32,125,762	\$ 3	\$ (37)	\$ 53,481	\$ 10,632	\$ (2,645)	\$ 61,434	\$ (909)	\$ 60,525
Stock-based compensation	7,162	—	—	879	—	—	879	—	879
Issuance of vested restricted shares, net of tax withholding	127,413	—	—	(314)	—	—	(314)	—	(314)
Loss on foreign currency translation, net	—	—	—	—	—	(92)	(92)	—	(92)
Net income (loss)	—	—	—	—	3,670	—	3,670	(149)	3,521
Balance at March 31, 2022	<u>32,260,337</u>	<u>\$ 3</u>	<u>\$ (37)</u>	<u>\$ 54,046</u>	<u>\$ 14,302</u>	<u>\$ (2,737)</u>	<u>\$ 65,577</u>	<u>\$ (1,058)</u>	<u>\$ 64,519</u>
Balance at December 31, 2020	29,083,183	\$ 3	\$ —	\$ 46,538	\$ (20,716)	\$ (2,646)	\$ 23,179	\$ (1,200)	\$ 21,979
Stock-based compensation	25,643	—	—	1,022	—	—	1,022	—	1,022
Exercise of stock options and warrants	450,971	—	—	—	—	—	—	—	—
Issuance of vested restricted shares, net of tax withholding	67,685	—	—	(154)	—	—	(154)	—	(154)
Purchase of noncontrolling interest	—	—	—	116	—	—	116	(191)	(75)
Loss on foreign currency translation, net	—	—	—	—	—	(18)	(18)	—	(18)
Net income (loss)	—	—	—	—	70	—	70	(130)	(60)
Balance at March 31, 2021	<u>29,627,482</u>	<u>\$ 3</u>	<u>\$ —</u>	<u>\$ 47,522</u>	<u>\$ (20,646)</u>	<u>\$ (2,664)</u>	<u>\$ 24,215</u>	<u>\$ (1,521)</u>	<u>\$ 22,694</u>

See notes to the condensed consolidated financial statements.

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

	For the three months ended March 31,	
	2022	2021
<b>Operating activities:</b>		
Net income (loss)	\$ 3,521	\$ (60)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,715	2,699
Stock-based compensation	879	1,022
Amortization of debt issuance costs	93	141
Deferred taxes	(15)	349
Changes in operating assets and liabilities:		
Accounts receivable	3,086	1,148
Inventory	(1,100)	—
Other current assets	1,183	(809)
Security deposits	57	3
Other assets	(150)	(164)
Accounts payable	244	392
Accrued expenses	(575)	2,537
Operating lease liabilities and right-of-use assets	283	88
Deferred gift card and license revenue	(398)	(360)
Net cash provided by operating activities	<u>9,823</u>	<u>6,986</u>
<b>Investing activities:</b>		
Purchase of property and equipment	(4,450)	(2,615)
Net cash used in investing activities	<u>(4,450)</u>	<u>(2,615)</u>
<b>Financing activities:</b>		
Repayments of long-term debt	(125)	(40)
Debt issuance costs	—	(35)
Tax-withholding obligation on stock-based compensation	(128)	(154)
Purchase of non-controlling interests	—	(75)
Net cash used in financing activities	<u>(253)</u>	<u>(304)</u>
Effect of exchange rate changes on cash	(90)	(17)
Net increase in cash and cash equivalents	5,030	4,050
Cash and cash equivalents, beginning of period	23,614	24,385
Cash and cash equivalents, end of period	<u>\$ 28,644</u>	<u>\$ 28,435</u>
<b>Supplemental disclosure of cash flow data:</b>		
Interest paid	\$ 402	\$ 1,022
Income taxes paid	\$ 86	\$ —
Accrued purchases of property and equipment	\$ 1,637	\$ —

See notes to the condensed consolidated financial statements.

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

**Note 1 – Summary of Business and Significant Accounting Policies**

*Summary of Business*

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

As of March 31, 2022, the Company owned, operated, managed, or licensed 59 venues, including 22 STKs and 24 Kona Grills in major metropolitan cities in North America, Europe and the Middle East and 13 F&B venues in seven hotels and casinos in the United States and Europe. For those restaurants and venues that are managed or licensed, the Company generates management fees based on top-line revenues and incentive fee revenue based on a percentage of the location’s revenues and profits.

*COVID-19*

The COVID-19 pandemic has significantly impacted and will continue to adversely affect our operations and financial results for the foreseeable future. In response to COVID-19, the Company has taken significant steps to adapt its business to increase sales while providing a safe environment for guests and employees. COVID-19 related expenses were \$2.3 million and \$1.6 million for the three months ended March 31, 2022 and 2021, respectively, composed primarily of sanitation, supplies and safety precautions taken to prevent the spread of COVID-19. Currently, all restaurants are open for in-person dining. The continuation of normal dining operations is subject to events beyond the Company’s control, including the effectiveness of governmental efforts to halt the spread of COVID-19.

The Company regularly communicates with its major suppliers and has not experienced any significant disruption in its supply chain. The Company has enhanced its programs to attract and retain both restaurant managers and hourly employees. The Company has also increased cleaning protocols, including a role which is focused on sanitation in high-touch and high-traffic areas, implemented daily health and safety checklists, provided additional personal protective equipment and cleaning supplies and engaged third party vendors to perform electrostatic cleaning of its restaurants.

*Basis of Presentation*

The accompanying condensed consolidated balance sheet as of December 31, 2021, which has been derived from audited financial statements, and the accompanying unaudited interim condensed consolidated financial statements (“condensed consolidated financial statements”) of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and in accordance with accounting principles generally accepted in the United States (“GAAP”). Certain information and footnote disclosures normally included in annual audited financial statements have been omitted pursuant to SEC rules and regulations. These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021.

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

*Prior Period Reclassifications*

Certain reclassifications of the 2021 amounts in the segment reporting footnote have been made to conform to the current year presentation.

*Recent Accounting Pronouncements*

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. ASU 2016-13 is effective for smaller reporting companies for fiscal years beginning after December 15, 2022. The Company is currently evaluating ASU 2016-13 and assessing the impact on its financial statements.

**Note 2 – Property and Equipment, net**

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

	March 31, 2022	December 31, 2021
Furniture, fixtures and equipment	\$ 25,327	\$ 24,942
Leasehold improvements	77,158	76,500
Less: accumulated depreciation	(41,495)	(39,425)
Subtotal	60,990	62,017
Construction in progress	8,454	5,374
Restaurant smallwares	2,247	2,247
Total	<u>\$ 71,691</u>	<u>\$ 69,638</u>

Depreciation related to property and equipment was \$2.5 million for both the three months ended March 31, 2022 and 2021. The Company does not depreciate construction in progress until such assets are placed into service.

**Note 3 – Intangibles, net**

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

	March 31, 2022	December 31, 2021
Kona Grill trade name	\$ 17,400	\$ 17,400
Other finite-lived intangible assets	66	66
Less: accumulated amortization	(2,180)	(1,961)
Total intangibles, net	<u>\$ 15,286</u>	<u>\$ 15,505</u>

The Kona Grill trade name and other finite-lived intangible assets are amortized using the straight-line method over their estimated useful life of 0 to 20 years. Amortization expense was \$0.2 million for both the three months ended March 31, 2022 and 2021. The Company’s estimated aggregate amortization expense for each of the five succeeding fiscal years is approximately \$0.9 million annually.



**Note 4 – Accrued Expenses**

Accrued expenses consist of the following (in thousands):

	March 31, 2022	December 31, 2021
Payroll and related <sup>(1)</sup>	\$ 6,774	\$ 6,554
Accrued lease exit costs <sup>(2)</sup>	4,863	4,913
VAT and sales taxes	2,801	3,477
Amounts due to landlords	2,010	1,847
Insurance	366	642
Interest	132	132
Legal, professional and other services	800	458
Income taxes and related	165	—
Construction on new restaurants	457	359
Other	4,762	4,773
<b>Total</b>	<b>\$ 23,130</b>	<b>\$ 23,155</b>

(1) Payroll and related includes \$1.2 million in employer payroll taxes for which payment has been deferred under the CARES Act as of March 31, 2022 and December 31, 2021, respectively.

(2) Amount relates to lease exit costs for 2016 leases for restaurants never built and still under dispute with landlords.

**Note 5 – Long-Term Debt**

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

	March 31, 2022	December 31, 2021
Term loan agreements	\$ 24,625	\$ 24,750
Revolving credit facility	—	—
<b>Total long-term debt</b>	<b>24,625</b>	<b>24,750</b>
Less: current portion of long-term debt	(500)	(500)
Less: debt issuance costs	(1,057)	(1,118)
<b>Total long-term debt, net of current portion</b>	<b>\$ 23,068</b>	<b>\$ 23,132</b>

Interest expense for the Company's debt arrangements, excluding the amortization of debt issuance costs and other discounts and fees, was \$0.5 million and \$1.1 million for the three months ended March 31, 2022 and 2021, respectively.

As of March 31, 2022, the Company had \$1.4 million in standby letters of credit outstanding for certain restaurants and \$10.6 million available in its revolving credit facility, subject to certain conditions.

*Credit and Guaranty Agreement*

On October 4, 2019, in conjunction with the acquisition of Kona Grill, the Company entered into a credit agreement with Goldman Sachs Bank USA (the "Credit Agreement"). On August 6, 2021, the Company entered into the Third Amendment to the Credit Agreement to extend the maturity date for both the term loan and revolving credit facility to August 2026, to eliminate all financial covenants except a maximum net leverage ratio of 2.00 to 1.00, and to eliminate restrictions on the maximum amount of capital expenditures, the maximum number of Company-owned new locations, and credit extensions under the revolving credit facility. As amended, the Credit Agreement provides for a secured revolving credit facility of \$12.0 million and a \$25.0 million term loan (reduced from \$48.0 million). The term loan is payable in quarterly installments of \$0.1 million, with the final payment due in August 2026.

The amended Credit Agreement has several borrowing and interest rate options, including the following: (a) a LIBOR rate (or a comparable successor rate) subject to a 1.00% floor from a 1.75% floor or (b) a base rate equal to the greatest of (i) the prime rate, (ii) the federal funds rate plus 0.50%, (iii) the LIBOR rate for a one-month period plus 1.00% or (iv) 4.00%. Loans under the amended Credit Agreement bear interest at a rate per annum using the applicable indices plus an interest rate margin of 5.00% from a variable interest rate margin of 5.75 to 6.75% (for LIBOR rate loans) and 4.00% from 4.75% to 5.75% (for base rate loans). Upon the cessation

of LIBOR, the amended Credit Agreement provides for the use of a benchmark replacement as defined in the amended Credit Agreement.

In conjunction with the amended Credit Agreement, the Company made a pre-payment on the loan of \$2.2 million and incurred \$0.9 million in debt issuance costs. The Company accounted for the amendment as a debt modification with a partial extinguishment and recognized a loss on early debt extinguishment of \$0.6 million for the year ended December 31, 2021 and \$0.1 million in transaction costs.

The Company's weighted average interest rate on the borrowings under the amended Credit Agreement as of March 31, 2022 and December 31, 2021 was 6.00%.

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

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

As of March 31, 2022, the Company had \$1.1 million of debt issuance costs related to the amended Credit Agreement, which were capitalized and are recorded as a direct deduction to long-term debt and \$0.6 million in debt issuance costs recorded in Other Assets on the condensed consolidated balance sheets. As of March 31, 2022, the Company was in compliance with the financial covenants required by the Credit Agreement.

#### **Note 6 – Fair Value of Financial Instruments**

Cash and cash equivalents, accounts receivable, inventory, accounts payable and accrued expenses are carried at cost, which approximates fair value due to their short maturities. Long-lived assets are measured and disclosed at fair value on a nonrecurring basis if an impairment is identified. There were no long-lived assets measured at fair value as of March 31, 2022.

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

#### **Note 7 – Income taxes**

Income taxes for the three months ended March 31, 2022 are recorded at the Company's estimated annual effective income tax rate, subject to adjustments for discrete events, should they occur. The Company's effective income tax rate including discrete events was 4.7% for the three months ended March 31, 2022 compared to 84.4% for the three months ended March 31, 2021. The Company's annualized effective tax rate is estimated at approximately 19.5% for 2022. The Company's projected annual effective tax rate differs from the statutory U.S. tax rate of 21% primarily due to the following: (i) tax credits for FICA taxes on certain employees' tips (ii) taxes owed in foreign jurisdictions such as the United Kingdom, Canada and Italy; (iii) taxes owed in state and local jurisdictions; and (iv) the tax effect of non-deductible compensation. Income tax provision recorded for the three months ended March 31, 2022 and 2021 included the discrete period tax benefits resulting from the vesting of restricted stock units.

The CARES Act includes provisions allowing for the carryback of net operating losses generated for specific periods and technical amendments regarding the expensing of qualified improvement property. The CARES Act also allows for the deferral of the employer-paid portion of social security taxes, which the Company has elected to defer and will pay by December 31, 2022.

The Company is subject to U.S. federal, state, local and various foreign income taxes for the jurisdictions in which it operates. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. In the normal course of business, the Company is subject to examination by the federal, state, local and foreign taxing authorities. There are no ongoing federal, state, local, or foreign tax examinations as of March 31, 2022.

**Note 8 – Revenue from Contracts with Customers**

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

	March 31, 2022	December 31, 2021
Deferred license revenue <sup>(1)</sup>	\$ 357	\$ 388
Deferred gift card and gift certificate revenue <sup>(2)</sup>	\$ 1,214	\$ 1,769
Konavore rewards program <sup>(3)</sup>	\$ 144	\$ 136

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

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

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

Significant changes in deferred license revenue and deferred gift card revenue for the three months ended March 31, 2022 and 2021 are as follows (in thousands):

	March 31, 2022	March 31, 2021
Revenue recognized from deferred license revenue	\$ 31	\$ 52
Revenue recognized from deferred gift card revenue	\$ 627	\$ 587

The estimated deferred license revenue to be recognized in the future related to performance obligations that are unsatisfied as of March 31, 2022 were as follows for each year ending (in thousands):

2022, nine months remaining	\$ 59
2023	79
2024	45
2025	44
2026	37
Thereafter	93
Total future estimated deferred license revenue	<u>\$ 357</u>

**Note 9 – Leases**

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

	March 31, 2022	March 31, 2021
Lease cost		
Operating lease cost	\$ 3,635	\$ 3,298
Variable lease cost	2,665	767
Short-term lease cost	244	138
Sublease income	—	—
Total lease cost	\$ 6,544	\$ 4,203
Weighted average remaining lease term – operating leases	13 years	12 years
Weighted average discount rate – operating leases	8.40 %	8.09 %

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

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

	March 31, 2022	March 31, 2021
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 3,043	\$ 2,514
Right-of-use assets obtained in exchange for operating lease obligations	\$ 3,709	\$ —

As of March 31, 2022, maturities of the Company's operating lease liabilities are as follows (in thousands):

2022, nine months remaining	\$ 6,674
2023	15,164
2024	14,663
2025	13,705
2026	13,636
Thereafter	131,925
Total lease payments	195,767
Less: imputed interest	(84,200)
Present value of operating lease liabilities	\$ 111,567

#### Note 10 – Earnings Per Share

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period and income available to common stockholders. Diluted earnings per share is computed using the weighted average number of common shares outstanding during the period plus the dilutive effect of potential shares of common stock including common stock issuable pursuant to stock options, warrants, and restricted stock units.

For the three months ended March 31, 2022 and 2021, the net income per share was calculated as follows (in thousands, except net income per share and related share data):

	Three months ended March 31,	
	2022	2021
Net income attributable to The One Group Hospitality, Inc.	\$ 3,670	\$ 70
Basic weighted average shares outstanding	32,231,210	29,168,576
Dilutive effect of stock options, warrants and restricted share units	2,014,235	2,862,903
Diluted weighted average shares outstanding	34,245,445	32,031,479
Net income available to common stockholders per share - Basic	\$ 0.11	\$ —
Net income available to common stockholders per share - Diluted	\$ 0.11	\$ —

For the three months ended March 31, 2022 and 2021, a nominal amount and 0.3 million stock options, warrants and restricted share units were determined to be anti-dilutive and were therefore excluded from the calculation of diluted earnings per share, respectively.

#### Note 11 – Stock-Based Compensation and Warrants

As of March 31 2022, the Company had 43,459 remaining shares available for issuance under the 2019 Equity Incentive Plan ("2019 Equity Plan").

Stock-based compensation cost for the three months ended March 31, 2022 and 2021 was \$0.9 million and \$1.0 million, respectively. Stock-based compensation is included in general and administrative expenses in the condensed consolidated statements of operations and comprehensive income. Included in stock-based compensation cost was \$0.1 million of stock granted to directors for the three months ended March 31, 2022 and 2021. Such grants were awarded consistent with the Board of Director's compensation practices. Stock-based compensation for the three months ended March 31, 2021 included \$0.3 million of compensation costs for the vesting of market condition based options and RSUs.

*Stock Option Activity*

Stock options in the table below include both time based and market condition based awards. Changes in stock options during the three months ended March 31, 2022 were as follows:

	Shares	Weighted average exercise price	Weighted average remaining contractual life	Intrinsic value (thousands)
Outstanding at December 31, 2021	1,252,352	\$ 3.36	3.92 years	\$ 11,581
Exercisable at December 31, 2021	1,126,685	\$ 3.48	3.72 years	\$ 10,283
Vested	—	\$ —		
Exercised	—	\$ —		
Cancelled, expired or forfeited	—	\$ —		
Outstanding at March 31, 2022	1,252,352	\$ 3.36	3.67 years	\$ 8,951
Exercisable at March 31, 2022	1,149,352	\$ 3.47	3.54 years	\$ 8,088

A summary of the status of the Company's non-vested stock options as of March 31, 2022 and changes during the three months then ended, is presented below:

	Shares	Weighted average grant date fair value
Non-vested stock options at December 31, 2021	125,667	\$ 1.00
Vested	(22,667)	1.55
Cancelled, expired or forfeited	—	—
Non-vested stock options at March 31, 2022	103,000	\$ 0.87

The fair value of options that vested in the three months ended March 31, 2022 was less than \$0.1 million. As of March 31, 2022, there is a nominal amount of unrecognized compensation cost related to non-vested awards, which will be recognized over a weighted-average period of 0.1 years.

*Restricted Stock Unit Activity*

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

A summary of the status of RSUs and changes during the three months ended March 31, 2022 is presented below:

	Shares	Weighted average grant date fair value
Non-vested RSUs at December 31, 2021	1,690,010	\$ 4.98
Granted	116,670	11.32
Vested <sup>(1)</sup>	(512,446)	2.51
Cancelled, expired or forfeited	(6,667)	8.80
Non-vested RSUs at March 31, 2022	1,287,567	\$ 6.51

(1) This amount includes 403,913 RSUs that have vested, but which shares have not yet been issued as of March 31, 2022.

As of March 31, 2022, the Company had approximately \$7.6 million of total unrecognized compensation costs related to RSUs, which will be recognized over a weighted average period of 2.9 years.

*Warrants*

As of March 31, 2022 and December 31, 2021, there were outstanding warrants to purchase 125,000 shares of common stock at an exercise price of \$1.63.

## Note 12 – Segment Reporting

The Company has identified its reportable operating segments as follows:

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

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

Certain financial information relating to the three months ended March 31, 2022 and 2021 for each segment is provided below (in thousands).

	STK	Kona Grill	ONE Hospitality	Corporate	Total
<b>For the three months ended March 31, 2022</b>					
Total revenues	\$ 42,499	31,212	343	127	74,181
Operating income (loss)	\$ 10,718	3,037	(9)	(9,544)	4,202
Capital asset additions	\$ 2,279	1,803	37	331	4,450
<b>As of March 31, 2022</b>					
Total assets	\$ 96,022	94,988	5,489	40,075	236,574
	STK	Kona Grill	ONE Hospitality	Corporate	Total
<b>For the three months ended March 31, 2021</b>					
Total revenues	\$ 24,691	25,577	33	181	50,482
Operating income (loss)	\$ 5,596	2,450	(118)	(7,071)	857
Capital asset additions	\$ 1,476	529	15	595	2,615
<b>As of December 31, 2021</b>					
Total assets	\$ 95,510	91,323	6,117	36,885	229,835

## Note 13 – Geographic Information

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

	For the three months ended March 31,	
	2022	2021
Domestic revenues	\$ 73,144	\$ 50,288
International revenues	1,037	194
Total revenues	\$ 74,181	\$ 50,482
	March 31,	December 31,
	2022	2021
Domestic long-lived assets	\$ 190,564	\$ 185,718
International long-lived assets	1,210	1,190
Total long-lived assets	\$ 191,774	\$ 186,908

**Note 14 – Commitments and Contingencies**

The Company is party to claims in lawsuits incidental to its business, including lease disputes and employee-related matters. The Company has recorded accruals in its consolidated financial statements in accordance with ASC 450. While the resolution of a lawsuit, proceeding or claim may have an impact on the Company's financial results for the period in which it is resolved, in the opinion of management, the ultimate outcome of such matters and judgements in which the Company is currently involved, either individually or in the aggregate, will not have a material adverse effect on the Company's consolidated financial position or results of operations.

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

*This Quarterly Report on Form 10-Q and certain information incorporated herein by reference contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and Section 27A of the Securities Act of 1933, as amended (the “Securities Act”). Forward-looking statements speak only as of the date thereof and involve risks and uncertainties that may cause our actual results, performance or achievements to be materially different from the results, performance or achievements expressed or implied by the forward-looking statements. These risk and uncertainties include the risk factors discussed under Item 1A. “Risk Factors” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2021. A number of factors could cause actual results or outcomes to differ materially from those indicated by such forward-looking statements, including but not limited to: (1) the effects of the COVID-19 pandemic on our business, including government restrictions on our ability to operate our restaurants and changes in customer behavior; (2) our ability to open new restaurants and food and beverage locations in current and additional markets, grow and manage growth profitably, maintain relationships with suppliers and obtain adequate supply of products and retain our key employees; (3) factors beyond our control that affect the number and timing of new restaurant openings, including weather conditions and factors under the control of landlords, contractors and regulatory and/or licensing authorities; (4) our ability to successfully improve performance and cost, realize the benefits of our marketing efforts and achieve improved results as we focus on developing new management and license deals; (5) changes in applicable laws or regulations; (6) the possibility that The ONE Group may be adversely affected by other economic, business, and/or competitive factors; and (7) other risks and uncertainties. We have attempted to identify forward-looking statements by terminology including “anticipates,” “believes,” “can,” “continue,” “ongoing,” “could,” “estimates,” “expects,” “intends,” “may,” “appears,” “suggests,” “future,” “likely,” “goal,” “plans,” “potential,” “projects,” “predicts,” “should,” “targets,” “would,” “will” and similar expressions that convey the uncertainty of future events or outcomes. You should not place undue reliance on any forward-looking statement. We do not undertake any obligation to update or revise any forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events, except as required under applicable law.*

### General

This information should be read in conjunction with the condensed consolidated financial statements and the notes included in Item 1 of Part I of this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes, and Management’s Discussion and Analysis of Financial Condition and Results of Operations, contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

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

### Business Summary

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

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

We opened our first restaurant in January 2004 in New York, New York, and, as of March 31, 2022, we owned, operated, managed or licensed 59 venues including 22 STKs and 24 Kona Grills in major metropolitan cities in North America, Europe and the Middle East and 13 F&B venues operated under ONE Hospitality in seven hotels and casinos throughout the United States and



Europe. For those restaurants and venues that are managed or licensed, we generate management fee revenue based on top-line revenues and incentive fee revenue based on a percentage of the location's revenues and net profits.

The table below reflects our venues by restaurant brand and geographic location as of March 31, 2022:

	Venues			Total
	STK <sup>(1)</sup>	Kona Grill	ONE Hospitality <sup>(2)</sup>	
<b>Domestic</b>				
Owned	11	24	2	37
Managed	2	—	1	3
Licensed	1	—	—	1
<b>Total domestic</b>	<b>14</b>	<b>24</b>	<b>3</b>	<b>41</b>
<b>International</b>				
Owned	—	—	—	—
Managed	4	—	10	14
Licensed	4	—	—	4
<b>Total international</b>	<b>8</b>	<b>—</b>	<b>10</b>	<b>18</b>
<b>Total venues</b>	<b>22</b>	<b>24</b>	<b>13</b>	<b>59</b>

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

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

### Our Growth Strategies and Outlook

Our growth model is primarily driven by the following:

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

We intend to open at least nine new venues in 2022. There are currently two Company-owned STK restaurants (San Francisco, CA and Dallas, TX), two Company-owned Kona Grill restaurants (Riverton, UT and Columbus, OH) and one managed STK restaurant (Stratford, UK) under development. In addition, in conjunction with REEF Kitchens, we plan to test and open three licensed units in Texas for takeout and delivery only. These units will feature offerings from our STK, Kona Grill and Bao Yum concepts. As our footprint increases, we expect to benefit by leveraging system-wide operating efficiencies and best practices through the management of our general and administrative expenses as a percentage of overall revenue.

### COVID-19

The COVID-19 pandemic has significantly impacted and will continue to adversely affect operations and financial results for the foreseeable future. In response to COVID-19, we have taken significant steps to adapt our business to increase sales while providing a safe environment for guests and employees. Currently, all restaurants are open for in-person dining. Our continuation of normal dining operations is subject to events beyond our control, including the effectiveness of governmental efforts to halt the spread of COVID-19.

We regularly communicate with our major suppliers and have not experienced any significant disruption in our supply chain. We have enhanced programs to attract and retain both restaurant managers and hourly employees. We have increased cleaning protocols, including a role which is focused on sanitation in high-touch and high-traffic areas, implemented daily health and safety checklists, provided additional personal protective equipment and cleaning supplies and engaged third party vendors to perform electrostatic cleaning of our restaurants.

In the first quarter of 2022, one of our licensees permanently closed an STK restaurant in Mexico City as a result of COVID-19.

**Executive Summary**

Total revenue increased \$23.7 million, or 46.9% to \$74.2 million for the three months ended March 31, 2022 compared to \$50.5 million for the three months ended March 31, 2021 primarily due to strong execution of our sales initiatives. Same-store sales increased 45.1% in the first quarter of 2022 compared to the first quarter of 2021. STK same store sales increased 66.5% while Kona Grill same store sales increased 21.9%. On a three-year basis, same store sales for the first quarter of 2022 increased 45.3% compared to the first quarter of 2019. STK same store sales increased 62.9% on a three-year basis while Kona Grill same store sales increased 27.5% reflecting the strong execution of our sales initiatives.

Restaurant operating profit increased \$3.8 million, or 40.8% to \$13.0 million for the three months ended March 31, 2022 compared to \$9.3 million for the three months ended March 31, 2021. Restaurant operating profit as a percentage of owned restaurant net revenue was 18.5% in the first quarter of 2022 compared to 18.8% in the first quarter of 2021.

Operating income increased \$3.3 million to \$4.2 million for the three months ended March 31, 2022 compared to operating income of \$0.9 million for the three months ended March 31, 2021. The increase was primarily driven by strong sales momentum.

**Results of Operations**

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

	<b>For the three months ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>Revenues:</b>		
Owned restaurant net revenue	\$ 70,516	\$ 49,168
Management, license and incentive fee revenue	3,665	1,314
Total revenues	<u>74,181</u>	<u>50,482</u>
<b>Cost and expenses:</b>		
<b>Owned operating expenses:</b>		
Owned restaurant cost of sales	18,099	12,001
Owned restaurant operating expenses	39,373	27,906
Total owned operating expenses	<u>57,472</u>	<u>39,907</u>
General and administrative (including stock-based compensation of \$879 and \$1,022 for the three months ended March 31, 2022 and 2021, respectively)	6,879	5,174
Depreciation and amortization	2,715	2,699
COVID-19 related expenses	2,313	1,557
Pre-opening expenses	345	101
Lease termination expenses	255	187
Total costs and expenses	<u>69,979</u>	<u>49,625</u>
Operating income	4,202	857
<b>Other expenses, net:</b>		
Interest expense, net of interest income	508	1,246
Total other expenses, net	<u>508</u>	<u>1,246</u>
Income (loss) before provision (benefit) for income taxes	3,694	(389)
Provision (benefit) for income taxes	173	(329)
Net income (loss)	3,521	(60)
Less: net loss attributable to noncontrolling interest	(149)	(130)
Net income attributable to The One Group Hospitality, Inc.	<u>\$ 3,670</u>	<u>\$ 70</u>

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

	For the three months ended March 31,	
	2022	2021
Revenues:		
Owned restaurant net revenue	95.1 %	97.4 %
Management, license and incentive fee revenue	4.9 %	2.6 %
Total revenues	100.0 %	100.0 %
Cost and expenses:		
Owned operating expenses:		
Owned restaurant cost of sales <sup>(1)</sup>	25.7 %	24.4 %
Owned restaurant operating expenses <sup>(1)</sup>	55.8 %	56.8 %
Total owned operating expenses <sup>(1)</sup>	81.5 %	81.2 %
General and administrative (including stock-based compensation of 1.2% and 2.0% for the three months ended March 31, 2022 and 2021, respectively)	9.3 %	10.2 %
Depreciation and amortization	3.7 %	5.3 %
COVID-19 related expenses	3.1 %	3.1 %
Pre-opening expenses	0.5 %	0.2 %
Lease termination expenses	0.3 %	0.4 %
Total costs and expenses	94.3 %	98.3 %
Operating income	5.7 %	1.7 %
Other expenses, net:		
Interest expense, net of interest income	0.7 %	2.5 %
Total other expenses, net	0.7 %	2.5 %
Income (loss) before provision (benefit) for income taxes	5.0 %	(0.8)%
Provision (benefit) for income taxes	0.2 %	(0.7)%
Net income (loss)	4.7 %	(0.1)%
Less: net loss attributable to noncontrolling interest	(0.2)%	(0.2)%
Net income attributable to The One Group Hospitality, Inc.	4.9 %	0.1 %

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

The following tables show our operating results by segment for the periods indicated (in thousands).

	STK	Kona Grill	ONE Hospitality	Corporate	Total
<b>For the three months ended March 31, 2022</b>					
Total revenues	\$ 42,499	31,212	343	127	74,181
Operating income (loss)	\$ 10,718	3,037	(9)	(9,544)	4,202
Capital asset additions	\$ 2,279	1,803	37	331	4,450
<b>As of March 31, 2022</b>					
Total assets	\$ 96,022	94,988	5,489	40,075	236,574
	STK	Kona Grill	ONE Hospitality	Corporate	Total
<b>For the three months ended March 31, 2021</b>					
Total revenues	\$ 24,691	25,577	33	181	50,482
Operating income (loss)	\$ 5,596	2,450	(118)	(7,071)	857
Capital asset additions	\$ 1,476	529	15	595	2,615
<b>As of December 31, 2021</b>					
Total assets	\$ 95,510	91,323	6,117	36,885	229,835

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

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

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

	<b>For the three months ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
Net income attributable to The One Group Hospitality, Inc.	\$ 3,670	\$ 70
Net loss attributable to noncontrolling interest	(149)	(130)
Net income (loss)	3,521	(60)
Interest expense, net of interest income	508	1,246
Provision (benefit) for income taxes	173	(329)
Depreciation and amortization	2,715	2,699
EBITDA	6,917	3,556
COVID-19 related expenses	2,313	1,557
Stock-based compensation	879	1,022
Lease termination expense <sup>(1)</sup>	255	187
Non-cash rent expense <sup>(2)</sup>	(31)	23
Pre-opening expenses	345	101
Adjusted EBITDA	10,678	6,446
Adjusted EBITDA attributable to noncontrolling interest	(78)	(53)
Adjusted EBITDA attributable to The ONE Group Hospitality, Inc.	\$ 10,756	\$ 6,499

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

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

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

	<b>For the three months ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
Operating income as reported	4,202	857
Management, license and incentive fee revenue	(3,665)	(1,314)
General and administrative	6,879	5,174
Depreciation and amortization	2,715	2,699
COVID-19 related expenses	2,313	1,557
Pre-opening expenses	345	101
Lease termination expense	255	187
Restaurant Operating Profit	\$ 13,044	\$ 9,261
Restaurant Operating Profit as a percentage of owned restaurant net revenue	18.5%	18.8%

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

	For the three months ended March 31,	
	2022	2021
STK restaurant operating profit (Company owned)	8,813	5,477
STK restaurant operating profit (Company owned) as a percentage of STK revenue (Company owned)	22.6%	23.4%
Kona Grill restaurant operating profit	4,276	3,737
Kona Grill restaurant operating profit as a percentage of Kona Grill revenue	13.7%	14.6%

## Results of Operations for the Three Months Ended March 31, 2022 and 2021

### Revenues

*Owned restaurant net revenue.* Owned restaurant net revenue increased \$21.3 million, or 43.4%, to \$70.5 million for the three months ended March 31, 2022 from \$49.2 million for the three months ended March 31, 2021. The increase was primarily attributable to strong execution of our sales initiatives. Comparable restaurant sales increased 45.1% in the first quarter of 2022.

*Management and license fee revenue.* Management and license fee revenues increased \$2.4 million, or 178.9% to \$3.7 million for the three months ended March 31, 2022 from \$1.3 million for the three months ended March 31, 2021. The increase was primarily attributable to local governments lifting stay at home orders and easing seating capacity restrictions in the markets in which we operate as well as revenue generated from the opening of two managed STKs, one licensed STK and three managed F&B venues during 2021.

### Cost and Expenses

*Owned restaurant cost of sales.* Food and beverage costs for owned restaurants increased \$6.1 million, or 50.8%, to \$18.1 million for the three months ended March 31, 2022 from \$12.0 million for the three months ended March 31, 2021. The increase was due to the incremental sales increases. As a percentage of owned restaurant net revenue, cost of sales increased 130 basis points from 24.4% in the three months ended March 31, 2021 to 25.7% for the three months ended March 31, 2022 primarily due to increased commodity prices partly offset by operational cost reduction initiatives.

*Owned restaurant operating expenses.* Owned restaurant operating expenses increased \$11.5 million to \$39.4 million for the three months ended March 31, 2022 from \$27.9 million for the three months ended March 31, 2021. Owned restaurant operating costs as a percentage of owned restaurant net revenue decreased 100 basis points from 56.8% in the three months ended March 31, 2021 to 55.8% for the three months ended March 31, 2022 due to leverage on higher average weekly sales and actively managing operating costs.

*General and administrative.* General and administrative costs increased \$1.7 million, or 32.7%, to \$6.9 million for the three months ended March 31, 2022 from \$5.2 million for the three months ended March 31, 2021. The increase was attributable to increased activity as our restaurants are generating strong average weekly sales. As a percentage of revenues, general and administrative costs were 9.3% for the three months ended March 31, 2022 compared to 10.2% for the three months ended March 31, 2021.

*Depreciation and amortization.* Depreciation and amortization expense was \$2.7 million for the three months ended March 31, 2022 and 2021.

*Pre-opening expenses.* In the three months ended March 31, 2022, we incurred \$0.3 million of pre-opening expenses primarily related to non-cash pre-open rent for STK Dallas, STK San Francisco, Kona Grill Riverton, and Kona Grill Columbus which are currently under construction. Pre-opening expenses for the three months ended March 31, 2021 were \$0.1 million.

*COVID-19 related expenses.* COVID-19 related expenses were \$2.3 million for the three months ended March 31, 2022 compared to \$1.6 million in the prior year period. COVID-19 related expenses are composed primarily of sanitation, supplies and safety precautions taken to prevent the spread of COVID-19.

*Interest expense, net of interest income.* Interest expense, net of interest income was \$0.5 million and \$1.2 million for each of the three months ended March 31, 2022 and 2021, respectively.

*Provision (benefit) for income taxes.* The provision for income taxes for the three months ended March 31, 2022 was \$0.2 million compared to a benefit for income taxes of \$0.3 million for the three months ended March 31, 2021. Our 2022 annualized effective tax rate is estimated at 19.5%.

*Net income (loss) attributable to noncontrolling interest.* Net loss attributable to noncontrolling interest was \$0.1 million for the three months ended March 31, 2022 and 2021.

## Liquidity and Capital Resources

### Executive Summary

Our principal liquidity requirements are to meet our lease obligations, working capital and capital expenditure needs and to pay principal and interest on outstanding debt. Subject to our operating performance, which, if significantly adversely affected, would adversely affect the availability of funds, we expect to finance our operations for at least the next 12 months, including the costs of opening currently planned new restaurants, through cash provided by operations and construction allowances provided by landlords of certain locations. We also may borrow on our revolving credit facility or issue equity to support ongoing business and fund additional expansion. We believe these sources of financing are adequate to support our immediate business operations and plans. As of March 31, 2022, we had cash and cash equivalents of \$28.6 million and \$24.6 million in long-term debt, which consisted of borrowings under our Credit Agreement. As of March 31, 2022, the availability on our revolving credit facility was \$10.6 million, subject to certain conditions.

In the three months ended March 31, 2022, capital expenditures were \$4.5 million of which \$1.7 million related to the construction of new STK and Kona Grill restaurants and \$2.8 million for existing restaurants and technology initiatives. Our future cash requirements will depend on many factors, including the pace of expansion, conditions in the retail property development market, construction costs, the nature of the specific sites selected for new restaurants, and the nature of the specific leases and associated tenant improvement allowances available, if any, as negotiated with landlords.

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

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

Minimum rents	\$	1,600
Insurance		200
Interest		100
Minimum general & administrative costs		500
Total	\$	<u>2,400</u>

### Credit Agreement

On October 4, 2019, in conjunction with the acquisition of Kona Grill, we entered into our Credit Agreement with Goldman Sachs Bank USA. On August 6, 2021, we entered into the Third Amendment to the Credit Agreement to extend the maturity date for both the term loan and revolving credit facility to August 2026, to eliminate all financial covenants except a maximum net leverage ratio of 2.00 to 1.00, and to eliminate restrictions on the maximum amount of capital expenditures, the maximum number of Company-owned new locations, and credit extensions under the revolving credit facility. As amended, the Credit Agreement provides for a secured revolving credit facility of \$12.0 million and a \$25.0 million term loan (reduced from \$48.0 million). The term loan is payable in quarterly installments of \$0.1 million, with the final payment due in August 2026.

The amended Credit Agreement has several borrowing and interest rate options, including the following: (a) a LIBOR rate (or a comparable successor rate) subject to a 1.00% floor from a 1.75% floor or (b) a base rate equal to the greatest of (i) the prime rate, (ii) the federal funds rate plus 0.50%, (iii) the LIBOR rate for a one-month period plus 1.00% or (iv) 4.00%. Loans under the amended

Credit Agreement bear interest at a rate per annum using the applicable indices plus an interest rate margin of 5.00% from a variable interest rate margin of 5.75 to 6.75% (for LIBOR rate loans) and 4.00% from 4.75% to 5.75% (for base rate loans).

As of March 31, 2022, we were compliant with the covenants required by the amended Credit Agreement. Based on current projections, we believe that we would continue to comply with the covenants in the Credit Agreement, as amended, throughout the twelve months following the issuance of the financial statements.

Refer to Note 5 and Note 14 to our condensed consolidated financial statements set forth in Item 1 of this Quarterly Report on Form 10-Q for further information regarding the terms of our long-term debt arrangements and information regarding our commitments and contingencies.

#### *Capital Expenditures and Lease Arrangements*

When we open new Company-owned restaurants, our capital expenditures for construction increase. For owned restaurants, where we build from a shell state, we have typically targeted an average cash investment of approximately \$3.8 million for a 10,000 square-foot STK restaurant and anticipate approximately \$2.5 million for an 8,000 square-foot Kona Grill restaurant, in each case, net of landlord contributions and excluding pre-opening costs. For STK locations where we may be the successor restaurant tenant, we anticipate total cash investment in the \$2.0 million to \$3.0 million range. Typical pre-opening costs are \$0.3 million to \$0.5 million. In addition, some of our existing restaurants will require capital improvements to either maintain or improve the facilities. We may add seating or provide enclosures for outdoor space in the next twelve months for some of our locations, which we expect will increase revenues for those locations.

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

We typically seek to lease our restaurant locations for periods of 10 to 20 years under operating lease arrangements, with a limited number of renewal options. Our rent structure varies, but our leases generally provide for the payment of both minimum and contingent rent based on sales, as well as other expenses related to the leases such as our pro-rata share of common area maintenance, property tax and insurance expenses. Many of our lease arrangements include the opportunity to secure tenant improvement allowances to partially offset the cost of developing and opening the related restaurants. Generally, landlords recover the cost of such allowances from increased minimum rents. However, there can be no assurance that such allowances will be available to us on each project that we select for development.

#### *Cash Flows*

The following table summarizes the statement of cash flows for the three months ended March 31, 2022 and 2021 (in thousands):

	For the three months ended March 31,	
	2022	2021
Net cash provided by (used in):		
Operating activities	\$ 9,823	\$ 6,986
Investing activities	(4,450)	(2,615)
Financing activities	(253)	(304)
Effect of exchange rate changes on cash	(90)	(17)
Net increase in cash and cash equivalents	<u>\$ 5,030</u>	<u>\$ 4,050</u>

*Operating Activities.* Net cash provided by operating activities was \$9.8 million for the three months ended March 31, 2022, compared to net cash provided by operating activities of \$7.0 million for the three months ended March 31, 2021. The increase was primarily attributable to net income generated for the three months ended March 31, 2022 driven by strong sales.

*Investing Activities.* Net cash used in investing activities for the three months ended March 31, 2022 was \$4.5 million primarily for the construction of STK restaurants in Dallas, Texas and San Francisco, California, and Kona Grill restaurants in Riverton, Utah and Columbus, Ohio, as well as capital expenditures for existing restaurants and technology initiatives compared to \$2.6 million for the three months ended March 31, 2021.

*Financing Activities.* Net cash used in financing activities for the three months ended March 31, 2022 and 2021 was \$0.3 million.



## **Recent Accounting Pronouncements**

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

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

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

## **Item 4. Controls and Procedures.**

### *Evaluation of Disclosure Controls and Procedures*

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as our controls are designed to do, and management necessarily applies its judgment in evaluating the risk and cost benefit relationship related to controls and procedures.

Our Chief Executive Officer and Chief Financial Officer, have reviewed the effectiveness of our disclosure controls and procedures as of March 31, 2022 and, based on this evaluation, have concluded that due to two material weaknesses in our internal control over financial reporting previously identified in Item 9A. “Controls and Procedures” of our 2021 Annual Report on Form 10-K, our disclosure controls and procedures were not effective as of March 31, 2022. These material weaknesses did not result in a material misstatement of the consolidated financial statements.

### *Remediation Efforts to Address the Material Weakness*

Our remediation efforts previously identified in Item 9A. “Controls and Procedures” of our 2021 Annual Report on Form 10-K to address the identified material weaknesses are ongoing. While we believe the steps taken to date and those planned for future implementation will improve the effectiveness of our internal control over financial reporting, we have not completed all remediation efforts.

The material weaknesses cannot be considered remediated until applicable controls have operated for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. Accordingly, we will continue to monitor and evaluate the effectiveness of our internal control over financial reporting in the areas affected by the material weaknesses.

### *Changes in Internal Controls*

Other than the ongoing steps being taken to implement the remediation plan described above and under Item 9A. “Controls and Procedures” in our 2021 Annual Report on Form 10-K, there have been no other changes in internal control over financial reporting that occurred during the quarter ended March 31, 2022 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

## **PART II — OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

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

one or more successful claims under which we incur greater liabilities than is currently anticipated, could materially and adversely affect our consolidated financial statements.

**Item 1A. Risk Factors.**

There have been no material changes to the risk factors contained in Item 1A of our Form 10-K for the year ended December 31, 2021.

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

None

**Item 6. Exhibits.**

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

<u>Exhibit</u>	<u>Description</u>
<a href="#">3.1</a>	<a href="#">Amended and Restated Certificate of Incorporation (Incorporated by reference to Form 8-K filed on September 5, 2014).</a>
<a href="#">3.2</a>	<a href="#">Amended and Restated Bylaws (Incorporated by reference to Form 8-K filed on October 25, 2011).</a>
<a href="#">31.1*</a>	<a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002</a>
<a href="#">31.2*</a>	<a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002</a>
<a href="#">32.1*</a>	<a href="#">Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes – Oxley Act of 2002, 18 U.S.C. Section 1350.</a>
<a href="#">32.2*</a>	<a href="#">Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes – Oxley Act of 2002, 18 U.S.C. Section 1350.</a>
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

\* Filed herewith.

**SIGNATURES**

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

Dated: May 6, 2022

THE ONE GROUP HOSPITALITY, INC.

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

## CERTIFICATIONS UNDER SECTION 302

I, Emanuel Hilario, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The ONE Group Hospitality, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2022

/s/ Emanuel Hilario

**Emanuel Hilario**

Title: Chief Executive Officer  
(Principal Executive Officer)

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## CERTIFICATIONS UNDER SECTION 302

I, Tyler Loy, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 6, 2022

/s/ Tyler Loy

**Tyler Loy**

Title: Chief Financial Officer  
(Principal Financial Officer)

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CERTIFICATIONS UNDER SECTION 906

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

The Quarterly Report for the three months ended March 31, 2022 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 6, 2022

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

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CERTIFICATIONS UNDER SECTION 906

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

The Quarterly Report for the three months ended March 31, 2022 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 6, 2022

/s/ Tyler Loy  
Tyler Loy  
Title: Chief Financial Officer  
(Principal Financial Officer)

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